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What physics was to the 20th century, biology will be to the 21st—and RNA will be a vital part of it: leader

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Politics this week

Jun 14th 2007
From The Economist print edition

Reuters

The two main **Palestinian** groups, the Islamist Hamas and the secular-minded Fatah, which have been trying to run a unity government in the Palestinian territories, fought what looked like a full-scale civil war in the Gaza Strip. After four days of bloodshed, at least 50 people had died. Fatah suspended its participation in the government. See article

A former **Israeli** prime minister, Ehud Barak, was elected leader of the Labour party, which is part of the ruling coalition government, in which he is expected to become defence minister. Meanwhile another former prime minister, Shimon Peres, was set to become Israel's president, a largely ceremonial post.

The minarets of a revered Shia mosque in the **Iraqi** town of Samarra were blown up, causing Iraqis across the country to fear another even bloodier wave of sectarian violence. The bombing of the same mosque in February last year sparked the sectarian mayhem that is still continuing. The government imposed a curfew in Baghdad. A big Sunni mosque in the town of Iskandariya, south of Baghdad, was totally destroyed, presumably in revenge.

A **Lebanese** MP, Walid Eido, was killed by a bomb in Beirut, the sixth prominent anti-Syrian Lebanese figure to be assassinated since 2005.

Sudan's government agreed to let a “hybrid” African Union and UN peacekeeping force be sent to its embattled western region of Darfur. The new force will be made up of 17,600 troops, including a rapid-reaction force, and a further 3,000 policemen. See article

In a flawed election to **Egypt's** upper chamber of parliament, the authorities made sure that candidates known to be sympathetic to the powerful Muslim Brotherhood, which is officially banned, won not a single seat. See article

There have been mass protests in **South Africa** in support of striking public-sector workers such as teachers and nurses. They are looking for pay rises of at least 10%. See article

First-round knock-out

The first round of **France's** parliamentary election produced a big win for Nicolas Sarkozy's centre-right UMP party. After a second round, Mr Sarkozy's party looks likely to have won over 400 of the 577 seats in the National Assembly. See article

The **Belgian prime minister**, Guy Verhofstadt, stepped down after his party was trounced in a general election. The new prime minister is likely to be Yves Leterme, a Flemish Christian Democrat.

George Bush completed his lightning tour of Europe after attending the G8 summit in Germany. In eight days the American president visited Germany, Italy, Poland, the Czech Republic, Bulgaria and Albania.

A former leader of the self-styled Krajina Serb republic, which broke away from Croatia in the early 1990s, was sentenced to 35 years in jail by **The Hague war-crimes tribunal**. Milan Martic had been found guilty of murder and ethnic cleansing.

Call for the bill

President Bush visited Capitol Hill in an attempt to persuade legislators not to give up work on the **immigration bill** he is backing. The bill, which would regularise the position of around 12m illegal

immigrants, tighten border security and create a “guest-worker” programme, stalled in the Senate last week. But opposition from both sides looks likely to sink it. See article

An attempt to censure **Alberto Gonzales**, the attorney-general, was blocked by Republicans in the Senate. The bill would have had no binding force, and the president had vowed to ignore it. Mr Gonzales is under pressure because of the allegedly politically motivated sackings of federal prosecutors.

The administration decided not to nominate the chairman of the joint chiefs of state, **General Peter Pace**, for a second term. He will be replaced by Admiral Michael Mullen. General Pace's re-confirmation by Congress had looked doubtful because of the failures in Iraq on his watch.

A group of Democratic and Republican senators proposed legislation that would penalise **China** for what they say is a policy of manipulating its currency to boost its exports. The bill's supporters believe they can assemble a veto-proof majority for the measure, which Mr Bush opposes.

Chasing in vain

AP

Jamaica's police confirmed that Bob Woolmer, Pakistan's cricket coach, died of natural causes and was not murdered, as they had at first claimed. Mr Woolmer, who was 58, died after being found unconscious in his Kingston hotel room on March 18th, following his team's loss to Ireland in the cricket World Cup.

In the latest surge of drug-related violence in **Mexico**, Mario Cesar Rios, a deputy from the opposition Institutional Revolutionary Party (PRI) was shot dead as he drove past Monterrey's city hall in the border state of Nuevo León. More than 1,200 people have been killed in organised-crime violence so far this year. See article

Under arrest

Police in **Indonesia** announced the arrest of Abu Dujana, a senior military leader of Jemaah Islamiah, an extremist group responsible for a string of murderous bombings, along with several other suspected militants. Analysts saw the arrest as a big blow to the group's operations. See article

Reuters

More than 100 people have been killed in mudslides and floods in Chittagong, a port in southern **Bangladesh**, after two days of unusually heavy rain. Dozens more are said to be missing. Officials say that across the country as many as 5m people have been marooned or threatened by the monsoon floods.

After a delay of more than six months because of disagreements over procedures, a tribunal in **Cambodia** to hear trials of former Khmers Rouges for genocide and crimes against humanity declared itself ready to convene. The trials, which are due to start next year, are expected to last for three years.

The ruling junta in **Thailand** issued orders freezing some of the assets of Thaksin Shinawatra, the prime minister it overthrew in September last year. Mr Thaksin's lawyer said his client planned to go back to Thailand from London, where he has been staying. Surayud Chulanont, the interim prime minister, said he was free to return.

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Business this week

Jun 14th 2007
From The Economist print edition

Ford confirmed that it was weighing the future of two luxury British brands, Land Rover and Jaguar, as part of a review of its global operations. The American carmaker made a loss of $12.6 billion in 2006 and is seeking to reduce its costs by $5 billion by 2008. If Ford does decide to sell, private-equity firms are thought to be more likely acquirers than other carmakers. See article

Shareholder activists made their presence felt. Atticus, an American hedge fund with a 1% stake in Barclays, urged the British bank not to pursue its *euro*65 billion ($86 billion) bid for ABN AMRO, a Dutch bank. Barclays is vying with a consortium led by Royal Bank of Scotland for control of ABN. Meanwhile ECS, a tiny investor in Vodafone, a huge mobile-phone operator, tabled a set of proposals to change the company's capital structure. Vodafone rejected the plans, which will be voted on by shareholders in July. See article

Drug discovery

Shareholders in **GlaxoSmithKline** filed a lawsuit against the drugs company, alleging that GSK had not adequately disclosed studies it had conducted into Avandia, a diabetes treatment. The studies confirmed an association between the drug and a higher risk of heart attacks than with comparable treatments. Safety concerns about Avandia first surfaced in May and have weighed on the company's share price since.

Disgruntled owners fired a warning shot at **Yahoo!'s** board of directors. A significant minority of shareholders in the internet company voted against the re-election of some board members and in favour of a resolution tying pay more closely to performance.

Rexam, a packaging firm, agreed to acquire the plastics packaging unit of Owens-Illinois for $1.8 billion. Rexam's shares dipped.

Qualcomm's lawyers had a busy week. The wireless-technology firm challenged a June 7th ruling by America's International Trade Commission banning the import of new mobile phones that contain the company's chips. The ruling was prompted by a patent dispute between Qualcomm and Broadcom, a rival.

A judge in Milan indicted four big banks—Citigroup, Deutsche Bank, Morgan Stanley and UBS—on charges of concealing **Parmalat's** financial woes from investors. The Italian dairy firm went bust in 2003 with debts of *euro*14 billion ($17.1 billion). The trial will begin in January.

A who's who of technology firms launched an industry initiative to reduce **computer energy consumption**. The campaign, which is being led by Google and Intel, commits makers of PCs and servers to higher efficiency standards.

BP's annual review of the world's energy resources showed that proven **oil reserves** were big enough to meet current consumption rates for another 40 years. Natural-gas reserves will hold out for 60 years at current levels of demand.

Europe pumped out fewer **greenhouse gases** in 2005, according to new data from the European Environment Agency. Emissions from the European Union's 27 member states dropped by 0.7% compared with a year earlier. Finland, Germany and the Netherlands contributed most to the drop.

Borrowed time?

Fears that Asian central banks are losing their appetite for government debt and worries about rising interest rates drove **global bond yields** higher. The yield on America's benchmark ten-year Treasury bond rose to its highest level in five years. Stockmarkets wobbled as a result: rising bond yields may spell

higher financing costs for a range of borrowers, from individual homeowners to debt-hungry private-equity firms. See article

Regulators approved the Chicago Mercantile Exchange's proposed $10.1 billion acquisition of the **Chicago Board of Trade** (CBOT), America's oldest futures exchange. The fight to buy CBOT is not over. IntercontinentalExchange, an upstart Atlanta-based exchange, promptly sweetened the terms of its own, unsolicited, bid for CBOT.

Concerned by the soaring value of the New Zealand dollar, the **Reserve Bank of New Zealand** sold reserves in order to depress the currency. The country's high interest rates had helped push the kiwi dollar to its highest level against the American dollar since it was floated in 1985. See article

Gap analysis

China's **trade surplus**, a perennial source of irritation to Western politicians, jumped to $22.5 billion in May, up by 73% year on year. Peter Mandelson, the European Union's trade commissioner, told his Chinese counterpart at talks in Brussels to liberalise market access and to crack down on counterfeiting. An American Treasury report called for the yuan to rise. The surplus is expected to keep widening.

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KAL's cartoon

Jun 14th 2007
From The Economist print edition

Kevin Kallaugher

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The RNA revolution

Biology's Big Bang

Jun 14th 2007
From The Economist print edition

What physics was to the 20th century, biology will be to the 21st—and RNA will be a vital part of it

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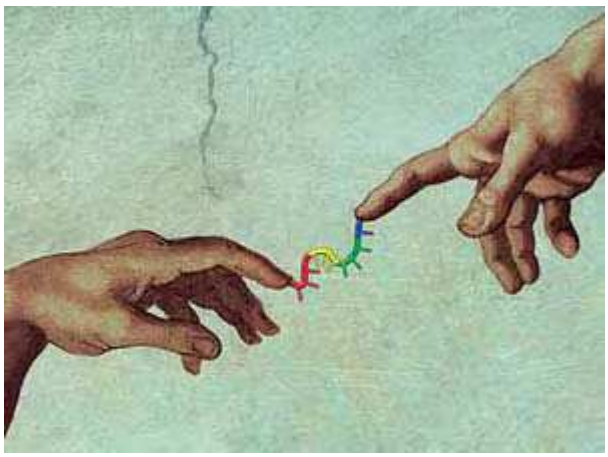

Get article background

NATURE is full of surprises. When atoms were first proved to exist (and that was a mere century ago), they were thought to be made only of electrons and protons. That explained a lot, but it did not quite square with other observations. Then, in 1932, James Chadwick discovered the neutron. Suddenly everything made sense—so much sense that it took only another 13 years to build an atomic bomb.

It is probably no exaggeration to say that biology is now undergoing its “neutron moment”. For more than half a century the fundamental story of living things has been a tale of the interplay between genes, in the form of DNA, and proteins, which the genes encode and which do the donkey work of keeping living organisms living. The past couple of years, however, have seen the rise and rise of a third type of molecule, called RNA.

The analogy is not perfect. Unlike the neutron, RNA has been known about for a long time. Until the past couple of years, however, its role had seemed restricted to fetching and carrying for DNA and proteins. Now RNA looks every bit as important as those two masters. It may, indeed, be the main regulator of what goes on in a cell—the cell's operating system, to draw a computing analogy—as well as the author of many other activities (see article). As important, molecular biologists have gone from thinking that they know roughly what is going on in their subject to suddenly realising that they have barely a clue.

That might sound a step backwards; in fact, it is how science works. The analogy with physics is deeper than just that between RNA and the neutron. There is in biology at the moment a sense of barely contained expectations reminiscent of the physical sciences at the beginning of the 20th century. It is a feeling of advancing into the unknown, and that where this advance will lead is both exciting and mysterious.

Know thine enemy

As Samuel Goldwyn so wisely advised, never make predictions—especially about the future. But here is one: the analogy between 20th-century physics and 21st-century biology will continue, for both good and ill.

Physics gave two things to the 20th century. The most obvious gift was power over nature. That power was not always benign, as the atomic bomb showed. But if the 20th century was distinguished by anything from its predecessors, that distinctive feature was physical technology, from motor cars and aeroplanes to computers and the internet.

It is too early to be sure if the distinguishing feature of the 21st century will be biological technology, but there is a good chance that it will be. Simple genetic engineering is now routine; indeed, the first patent application for an artificial living organism has recently been filed (see article). Both the idea of such an organism and the idea that someone might own the rights to it would have been science fiction even a decade ago. And it is not merely that such things are now possible. The other driving force of technological change—necessity—is also there. Many of the big problems facing humanity are biological, or are susceptible to biological intervention. The question of how to deal with an ageing population is one example. Climate change, too, is intimately bound up with biology since it is the result of carbon dioxide going into the air faster than plants can remove it. And the risk of a new, lethal infection suddenly becoming pandemic as a result of modern transport links (see article) is as biological as it gets. Even the fact that such an infection might itself be the result of synthetic biology only emphasises the biological nature of future risks.

At the moment, policymakers have inadequate technological tools to deal with these questions. But it is not hard to imagine such tools. Ageing is directly biological. It probably cannot be stopped, but knowing how cells work—really knowing—will allow the process to be transformed for the better. At least part of the answer to climate change is fuel that grows, rather than fuel that is dug up. Only biotechnology can create that. And infections, pandemic or otherwise, are best dealt with by vaccines, which take a long time to develop. If cells were truly understood, that process might speed up to the point where the vaccine was ready in time to do something useful.

But physics gave the 20th century a more subtle boon than mere power. It also brought an understanding of the vastness of the universe and humanity's insignificant place in it. It allowed people, in William Blake's phrase, to hold infinity in the palm of a hand, and eternity in an hour.

Know thyself

Biology, though, does more than describe humanity's place in the universe. It describes humanity itself. And here, surprisingly, the rise of RNA may be an important part of that description. Ever since the human-genome project was completed, it has puzzled biologists that animals, be they worms, flies or people, all seem to have about the same number of genes for proteins—around 20,000. Yet flies are more complex than worms, and people are more complex than either. Traditional genes are thus not as important as proponents of human nature had suspected nor as proponents of nurture had feared. Instead, the solution to the puzzle seems to lie in the RNA operating system of the cells. This gets bigger with each advance in complexity. And it is noticeably different in a human from that in the brain of a chimpanzee.

If RNA is controlling the complexity of the whole organism, that suggests the operating system of each cell is not only running the cell in question, but is linking up with those of the other cells when a creature is developing. To push the analogy, organs such as the brain are the result of a biological internet. If that is right, the search for the essence of humanity has been looking in the wrong genetic direction.

Of course, such results are speculative and primitive. But that is the point. Lord Rutherford, who proved that atoms exist, knew nothing of neutrons. Chadwick knew nothing of quarks, let alone supersymmetry. Modern biologists are equally ignorant. But eventually, the truth will out.

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Air travel

Trouble in the control tower

Jun 14th 2007
From The Economist print edition

It would be surprisingly easy for governments to make flying more enjoyable and cleaner

Corbis

THIS looks like being another miserable summer for air travellers. Delays in America last year were the worst ever and could this year break even that grim record. America's air-transport system is facing gridlock. More than 1 billion passengers are flying in the rest of the world—and complaining more loudly than ever. Airports will only become more congested and aircraft fuller as passenger numbers worldwide grow from 2 billion a year to 2.5 billion by 2010. Sad to say, flying anywhere can be horrible, nowadays.

Nor is air travel doing much good to the environment. Although aviation accounts for only around 2% of man-made carbon-dioxide (CO_2) emissions, that share is growing rapidly. The harm could be amplified by the effects of other emissions from jet-engines at high altitude.

Airlines are starting to face up to their environmental responsibilities. This month Giovanni Bisignani, boss of the International Air Transport Association, which speaks for most of the world's big airlines, said that “a growing carbon footprint is no longer politically acceptable.” Air transport, he added, should strive to become a zero-emissions industry.

That is a vision for 50 years or more ahead. Yet, as our special report shows, a lot can be done even now. A combination of new aircraft built from lighter materials, new fuel-conserving engines and more efficient operating procedures could cut airlines' fuel consumption by half—and reduce CO_2 emissions by a similar amount over the next decade or so. This would suit passengers too. A more efficient industry would make flying less of a hassle, by modernising fleets and reducing delays and congestion.

What, then, is getting in the way of such evident progress? Governments, mostly. Take air traffic control. It is inexcusable that Europe has failed to overhaul its system, which is supplied by a ridiculous 34 different providers organised largely around national boundaries. The resulting delays and longer routings cost airlines €3.3 billion ($4.4 billion) a year. America has only one supplier, but its system dates from the 1950s and a plan to replace it with a more efficient satellite-based one is bogged down by squabbles in Congress over job losses at older centres; private pilots also fear higher charges.

Plenty more gains are going begging. More direct air routes between countries may save only minutes, but each minute reduces fuel consumption by 60 litres and saves 160kg of CO_2. Towing aircraft instead of letting them taxi helps; more efficient landing approaches are useful too. And many airports are inefficiently priced, with established airlines claiming “grandfather” rights over scarce take-off and landing slots. If these were auctioned to the highest bidder, airlines would use them better, mostly with larger aircraft.

Aerofoiled

The biggest single favour governments could do for air travellers and the environment is to get out of the way and let airlines make money. Airlines need to become more reliably profitable in order to replace kerosene-guzzling 20-year-old jets with new and more spacious fuel-efficient aircraft.

More open-skies agreements and more privatisations would help. But so too would allowing failed airlines to go bust rather than being propped up with state support or America's Chapter 11 bankruptcy code. Laws barring foreigners from taking over airlines should go. Foreign-ownership restrictions deny efficiencies from consolidation and mean no carrier has more than a few percent of the world market. Until the industry that helped bring about globalisation is allowed to globalise itself, flying will remain troublesome and dirty.

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The European Union

A constitutional conundrum

Jun 14th 2007
From The Economist print edition

A new European treaty is acceptable only if its contents are kept to a bare minimum

Peter Schrank

OLD treaties never die. That seems a fair conclusion to draw from the efforts being made by European Union leaders meeting at next week's summit to draw up a slimmed-down version of the draft constitution originally signed in October 2004. After all, this constitution was rejected by voters in France and the Netherlands in referendums in mid-2005. Since European treaties have to be ratified unanimously before coming into force, this should have been enough to kill the constitution. Yet it is rising, Lazarus-like, from the dead.

This is not because a new treaty is pressingly necessary. The EU has managed to expand from 15 to 27 members under its existing rules, culminating in the Nice treaty of 2000. It is negotiating, somewhat fitfully, with two more candidates for entry: Croatia and Turkey. Since the French and Dutch rejections, it has managed such tricky tasks as agreeing a seven-year budget and adopting new strategies for energy and the environment. This is manifestly not a club that is paralysed and unable to function without further institutional change.

Yet Angela Merkel of Germany, holder of the rotating presidency of the EU, has made agreement on a new treaty her top priority. This reflects the frustration of the 18 countries that have endorsed the constitutional treaty (plus four more that stand ready to do so) at being stopped in their tracks by the other five: the two rejectionists plus Britain, the Czech Republic and Poland. But to push for a new text that Ms Merkel hopes will preserve as much as 90% of the substance in the rejected one, merely dropping provocative labels and symbols such as the word “constitution”, the EU flag and anthem and the phrase “foreign minister”, is contemptuous of voters. It reinforces a long-held Eurosceptic belief that, if ordinary people ever say no to anything that emanates from Brussels, it is brought back repeatedly until they say yes.

Or not even that, in this case. For Ms Merkel's second goal, which will be supported by everybody at next week's summit, is to avoid putting any new text to the vote anywhere (save Ireland, where a referendum is required for all EU treaties). No fewer than ten countries promised a referendum on the constitutional treaty. Two voted yes, two voted no and the other six then suspended their ratification. It would be wrong for EU leaders to avoid the risk of more negative votes by simply going back on their pledges to hold referendums. It would also be wrong for them to stitch up a compromise at the summit that precludes further debate in the inter-governmental conference which is due to follow. A bout of secretive treaty-making behind closed doors is hardly an idea destined to endear an already unpopular EU to disenchanted voters.

The minimalist solution

Yet it is not right to conclude that any new treaty, however minimal its proposed changes, must be rejected—nor that every new treaty has to be put to referendums. The draft constitution, for all its faults, included several desirable "minimal" institutional changes, including a shrinkage in the size of the European Commission, one beefed-up foreign-policy post (rather than two weak ones), a stronger role for national parliaments, a semi-permanent EU presidency and a reweighted system of national votes (see article). These changes, especially a new voting system, may mean that some countries lose some clout; but they would not involve a real transfer of power from national governments as a whole to Brussels. Such a list would pass *The Economist's* muster, not just because the proposals would be useful, but because they fall below the level where they should be put to referendum.

By contrast there are quite a few things that "maximalists" would like to sneak into the treaty that fail either or both of these tests. Any extension of majority voting, for example to judicial and home affairs, would mean more power going to Brussels. The charter of fundamental rights, which made up part two of the constitutional treaty, was never very sensible. But it also plainly fails the referendum test: even if its application is circumscribed, it would create new European rights that the European Court may later increase in scope.

A minimalist treaty would annoy both maximalists and Eurosceptics. The first group, frankly, should be grateful to get anything at all after the no votes in 2005. Even a minimal deal is far from certain. France's hyper-active new president, Nicolas Sarkozy, believes that he has already cooked up a solution, but the combination of his and Ms Merkel's persuasiveness may yet prove insufficient for the British and the Poles—with the Dutch also an unpredictable factor.

Eurosceptics—at least of the sort that want the EU to exist at all—would also do well to accept a minimalist treaty. It would take the issue of institutional reform, which has obsessed the EU for far too many of the past 15 years, off the table. It should clear the way for proper debate on the club's future enlargement, stopping opponents of Turkish accession, for instance, hiding their real objections behind the mere absence of a new treaty. It should also lead to a thorough examination next year of the union's lopsided budget, an insane 40% of which is still wasted on farm subsidies (see article).

After the departure of France's Jacques Chirac and, shortly, Britain's Tony Blair, the EU will have a new set of leaders. It would be good for them to tackle the continent's real problems, not to keep wrangling over its institutions.

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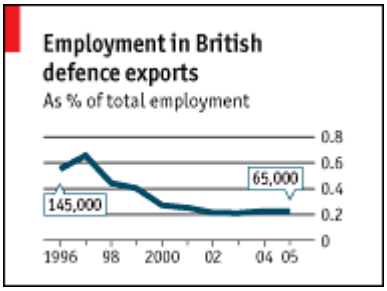
Arms deals and bribery

The bigger bang

Jun 14th 2007
From The Economist print edition

Britain needs its defence industry, but not at any price



IT STARTED as a familiar tale of kickbacks in the murky world of international arms trading. BAE Systems, Britain's largest defence manufacturer, was suspected for years of having slipped handsome "commissions" to those who had helped secure the world's biggest arms deal in 1986: a contract to supply and maintain £43 billion-worth ($85 billion) of aircraft and other bits and pieces to Saudi Arabia. Later, British authorities investigated the Al Yamamah deal, only to call an abrupt halt last December as the gumshoes were circling royal Saudi bank accounts in Switzerland. National security and the fight against terrorism would be imperilled if Britain's valued Middle Eastern ally were annoyed, the official version ran. An extension to the arms deal that could bring Britain as much as £20 billion is believed to be close to signing now.

So far, so predictable, cynics would say. But detailed new allegations in the media have made things look even worse. Payments of more than £1 billion have allegedly been traced to Prince Bandar bin Sultan, a member of the Saudi royal family. Worse still, it seems that the British government (which under Margaret Thatcher signed the agreement) was an integral part of the payments chain.

Both BAE and Prince Bandar deny any wrongdoing. But pressure for a public inquiry has increased—and rightly so. Tony Blair's government has often justified other intrusions of privacy on the basis that the innocent have nothing to fear. That logic should surely apply here; indeed, if they are innocent, both BAE, which is trying to grow fast in America, and Mr Blair, who would like to be remembered for fighting corruption, have a lot to gain from the clouds over their reputations being blown away. BAE has asked a former Lord Chief Justice to mount an independent inquiry of its contract procedures (though he is meant to keep his eyes firmly fixed on the future). Prince Bandar, who used to be the Saudi ambassador to Washington, DC, and is a friend of the Bush family, may not be subject to such democratic concerns; but presumably he would also welcome the opportunity to clear his name.

Judged on the basis of justice, then, the decision to suspend the Serious Fraud Office's investigation in December looks even more pig-headed and plain wrong now than it did then. But what of the extenuating "national interest" circumstances offered by Mr Blair—the idea that further investigation would be bad for the war on terror and bad for defence jobs?

Here a jet, there a jet

Leave aside for the moment Mr Blair's implication, no doubt cruelly unfair, that the Saudis take kickbacks and would be miffed if it were laid in the open. The idea that they would somehow stop being useful allies against terrorism seems tosh. Put simply, the Saudis are even more exposed to al-Qaeda than Britain is; and British intelligence has at least as much to offer in that struggle as its Saudi equivalent does. It is hard to see British national security being obviously worse off; harder still to see Mr Blair falling for that line.

The more interesting extenuating circumstance—and surely the one that weighed most heavily with the prime minister—is the idea that the deal was crucial to Britain's defence industry. It is not just that thousands of British jobs hang on the Saudi contracts; some say such export deals give Britain's defence industry the scale it needs to equip its fighting men reliably in times of war. Yet that prompts two larger, heretical questions: does Britain need a home-grown defence industry nowadays? And what price is it worth paying to have one?

From an economic perspective, the argument for the arms industry deserving special treatment, always

weak, looks weaker. The defence sector gets plenty of subsidies from the government: support for research and development, hefty purchases for the British armed forces, an official agency and helpful guarantees to sell its products. It employs only 65,000 people, or 0.23% of all those working in Britain, and accounts for just 2.2% of all exports.

But what of BAE's case for special treatment on security grounds—the argument that Britain cannot rely on even its friends to equip it in time of war and thus needs its own supplier? There is more in this. True, it is hard to imagine Britain fighting another war of any size without America (and its defence industry) at its side, and arms-makers are becoming reassuringly less “national”: France's Thales now owns Britain's Racal; 40% of BAE's sales are in America; any big piece of military kit usually includes components from all over. Yet politics often intervenes. Belgium refused to sell Britain bullets for use in the first Gulf war and there has even been a recent brush with the Americans, who were (wrongly) reluctant to share computer software related to the Joint Strike Fighter jet.

As the industry continues to globalise, the argument about whether a country with Britain's military ambitions needs to retain one big domestic supplier will intensify. The answer for the moment is yes, but not at any price. Later this month Britain will have a new prime minister. Gordon Brown might usefully show that he, unlike his predecessor, understands this by ordering a public review of the Al Yamamah contract.

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Palestine and Israel

As bleak as it gets

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From The Economist print edition

A civil war among Palestinians is bad for the Israelis too

AP

THE Gaza Strip has long been the most wretched part of a would-be Palestinian state. This week it sank into even deeper misery, as Palestinians killed Palestinians in what looks ominously like a civil war (see article). Whoever comes out on top, the outcome will hurt everyone, Israelis included.

If the Islamists of Hamas win this round, the spectre will loom of a failed statelet where al-Qaeda, which Palestinians of all stripes have hitherto kept out of their battles with Israel and with each other, may get a toe-hold amid the chaos, making it harder than ever for the sensible majority of Palestinians to make peace with Israel. Moreover, the Palestinians' leadership would be rent in two, with one bit in Gaza and another in the much bigger West Bank, making it even harder for Israel or for a mediator to find a potent Palestinian interlocutor.

But if Hamas is smashed, as many Israelis and their secular-minded Arab neighbours such as Egypt and Jordan hope, the prospect of a Palestinian-Israeli peace will be no closer either. Despite its refusal to accept Israel unequivocally, Hamas cannot be bludgeoned out of the equation. It represents a good chunk of Palestinians; some 44% of them across the two Palestinian territories (and a strong majority in Gaza) voted for it. The Palestinians elected Hamas as their government mainly because they deemed it less corrupt than its secular rival, Fatah, the party of the late Yasser Arafat. There is no sign that the Palestinians as a whole are turning against Hamas, despite the punitive boycott of the Hamas-led government by most of the Western world as well as by Israel and the United States.

Is there any point in trying, once the latest bloodshed subsides, to drag Hamas into the business of negotiating with Israel, despite its refusal so far to meet the conditions set by the big outside powers—the UN, the European Union and so on—as Hamas's price for having the devastating economic and diplomatic boycott against it lifted? The answer is still yes. Most Palestinians, notably including even most of those who voted for Hamas, want a two-state solution in which a sovereign Palestinian state and a secure Israeli one must co-exist side by side. Hamas knows it cannot ignore that view.

Moreover, it did start groping, albeit in a maddeningly crabwise manner, towards meeting those conditions. On the question of ending violence (the first of the three big ones), it had generally upheld a unilateral ceasefire which it unwisely broke earlier this year because, it says, of Israel killing too many Palestinians; and it has stopped its vile habit of suicide-bombings. At a meeting in February in Mecca, under the auspices of Saudi Arabia, as part of its agreement to join a Palestinian government of national unity with Fatah, Hamas said it would “honour” previous agreements made by the Palestine Liberation Organisation (the second big demand), which in turn implied at least a de facto recognition of Israel (the third and perhaps most momentous demand).

What next?

Hamas has some way to go. But it has been shifting from its intransigent positions of the past. If it is true that it is too big to be ignored or destroyed and has been edging the right way, it surely follows that efforts must be redoubled to drag it further along the twisty road towards pragmatism and negotiation. This means that, above all, it should be judged by deeds, not words. It certainly cannot expect sympathy if it continues to rain rockets against civilians in Israel—or lets other parties in Gaza do the same. But, provided that at the very least Hamas reimposes a ceasefire and shows it can compromise on other matters (such as releasing a captured Israeli soldier and amending its anti-Semitic charter), the boycott should be eased. It has exacted a terrible price from ordinary Palestinians and has encouraged Fatah to try violently toppling it.

Right now, Israelis can say without contradiction that they have no Palestinian partner. The Israelis are not much of a negotiating partner either. The Labour party is not certain to stay in the ruling coalition for long, after this week electing a new leader, Ehud Barak, who, as prime minister, nearly won a peace deal with Arafat at Camp David in 2000. While the Palestinians fight over who should lead them, the only immediate opening towards peace is a chance that Israel may talk to Syria with a view to a deal that would give back the Golan Heights it conquered in 1967. That would boost peace prospects all over the region, including the Palestinian territories.

But the immediate task is to stop Palestinians killing each other. Encouraging their two main groups to destroy each other will solve nothing, least of all for Israel.

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Absurd titles

Tsarstruck

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It is time to let the Russian royal family rest in peace

Peter Schrank

WHEN, a few years ago, word came that British bird lovers anxious about the decline of the house sparrow had appointed a sparrow tsar, it seemed that the tsar vogue must have reached its zenith. France already had a crime tsar, London a traffic tsar, Japan a banking tsar, the European Union a foreign-policy tsar, and America had tsars for adoption, baseball, B-movies, manufacturing, record labels, you name it. No one, however, could outdo the sparrow tsar, or so you might think. Surely he would prove to be not so much the *reductio ad absurdum* as the *dernier cri*, the *ne plus ultra* in the once-rarefied realm of tsardom? But no. The latest newcomer, unless one has been added since you started this paragraph, is President George Bush's war tsar.

In fact, tsar-creation has never even faltered. Newish title-holders include Canada's copyright tsar, New Orleans's recovery tsar, Singapore's baby tsar, Tony Blair's respect tsar, Thailand's condom tsar and America's nipple tsar (Michael Powell, whose job as chairman of the Federal Communications Commission was to prevent a repetition of Janet Jackson's televised bosom exposure). They join an ever-swelling band of AIDS tsars, counter-terrorism tsars, cyber-security tsars, economy tsars, food-safety tsars, learning-disability tsars, piracy tsars, water tsars and even mental-health-service-user tsars.

All of which is a bit odd. One of the few points of agreement for most of the 20th century was that tsars were a Bad Thing, a particularly nasty example of natural selection that started with some brutal caesars, took in some belligerent kaisers and found its most excruciating expression in the Russian variants. Their rehabilitation in almost every quarter must rank as the most sudden, surprising and complete in the history of brand management. Republican Americans cannot get enough tsars. The purist-nationalist French, overseen by the Académie Française, seem ready to embrace them. And the Russians—yes, of all people, the Russians—have succumbed to an advertising tsar. A haemophilia tsar cannot be far away.

Nowhere is the triumph of the tsars more evident than in the wicked world of drugs. This world is divided into countries whose citizens yearn to see a drug tsar appointed and countries that have already got one. Why is a drug tsar so universally necessary? To see off the drug barons, of course. Until quite recently barons were a Good Thing. They brought bad King John to heel at Runnymede. Now they are a Bad Thing. What next? Führers, Caudillos, Duci, Gauleiters and Generalisimos must be due for a comeback.

It is time to put a stop to all this. The English language, borrowing, as so often, from Latin, already has a word for a supreme head. It is supremo. Journalists should try using it (they can fall back on big cheese occasionally). For their part, governments should try using titles that accurately describe the activities of their officials.

Bring on the serfs and kulaks

Once upon a time Britain had a minister for war. Now the same job is done by the secretary of state for defence. It also has a Captain of the Yeomen of the Guard. No one would guess it, but he is a deputy government whip. Minister for delivery and quality sounds plain and straightforward, but no one knows what he delivers, never mind its quality. Does the minister for social exclusion promote social exclusion, just as the minister for education presumably promotes education? Perhaps it does not matter: in Britain obfuscation is all.

Japan, by contrast, has a minister for the privatisation of the postal services. That is explicit. Unfortunately, minister for the rechallenge is not. His job is to give people a second go in life, though that sounds very much like the responsibility of the minister for disaster management. In Japan, however, that title means what it says. Elsewhere it refers to damage limitation, a task for spin doctors.

Now did the tsars have spin doctors? They certainly had lifestyle gurus. Time, surely, to rehabilitate Rasputin.

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On Venezuela, China, selection in schools, Blair Mountain, immigration, marriage

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From The Economist print edition

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Remote control

SIR – With reference to your leader on press freedoms in Venezuela, would you think it admissible if a British television channel conspired openly to bring down the democratically elected government of Britain ("Pulling the plug", June 2nd)? Would you give your consent if that same channel incited civil disobedience against the authorities? Would it be tolerable if it promoted an economic stoppage that cost the country 13% of its GDP? If not, then why is it unacceptable for Venezuela to allow the broadcast licence for Radio Caracas Televisión to expire after it has done exactly all those things? If you want proof that Venezuela enjoys freedom of expression maybe you should watch the country's 79 television stations and read its 118 newspapers, privately owned, that are mostly opposed to President Hugo Chávez's government.

Alfredo Toro Hardy
Ambassador for Venezuela
London

SIR – The path that Mr Chávez has chosen is not new. He is strategic and shrewd and knows he cannot remain in power indefinitely if he has critics in the media. But his apologists around the world should understand that totalitarian government, brain-washing propaganda and Stasi-style police tactics have no place in modern societies.

Diego Saltes
Arlington, Virginia

What not to fear

SIR – China's industrialisation over the past two decades has had a dramatic impact on lowering America's import costs ("Lost in translation", May 19th). However, the recent shortage of skilled and semi-skilled Chinese labour has led to notably higher wages, and these increased labour costs are being slowly passed on through higher export prices. Your analysis, that a more flexible Chinese currency regime would have a small effect on America, understates the threats to price stability. A sharply stronger yuan could only lead to further upward pressure on American import bills and consequently future inflation and interest rates. Politicians should also note that finding a more competitive nation to import from with the manufacturing scale and infrastructure of China will not be so easy.

Amir Anvarzadeh
Director of Japanese equity sales
KBC Financial Products
London

Unnatural selection

SIR – It may be true that "Britain needs an elite", but it does not follow that those intellects need to be manufactured locally through the schooling system ("The S-word", May 26th). If your main concern were really the supply of intellect in the most efficient way, you would not be promoting a vast government-subsidised domestic industry to produce it. America has been importing foreign-born intellect for decades. Of course, the real attraction of elite education is that it provides access to wealth and power for those who have acquired it. Where schools are the gatekeepers to the winners' circle, parents will do

anything to get their children through.

Imagine if, for some quirk of constitutional history, the British cabinet had to be selected entirely from landscape gardeners and blacksmiths. Can anyone doubt that parents would be fighting to get their children into the most selective horticultural and metalworking academies?

Stephen Morris
Coorparoo, Australia

Military precision

SIR – Seeing that the United States Air Force did not exist by that name until 1947, it is very doubtful that it was used against "the country's own people" at Blair Mountain, West Virginia, in 1921 ("Battle of the mountain tops", May 26th). It would have been America's army air service that was used at the time.

Steve McCarver
Maxwell Air Force Base, Alabama

Broader issues

SIR – You failed to understand the basis of the hostility from conservatives towards America's flawed immigration-reform package ("Better than nothing", May 26th). Far from us "right-wingers" snarling about it being an "amnesty" for illegal immigrants, the primary concern for most of us is that security on the southern border has not been significantly improved.

Even worse, none of us believes that any of the ideas on offer in Congress will result in improved border control. Our politicians are once again saying "trust us", but they lack the backbone to put in place any effective measures that will prevent the next wave of illegal immigrants. In the interim, our prisons are overflowing with criminals who are here illegally; diseases such as tuberculosis are re-emerging as a serious health threat; and hospital emergency rooms are closing because they are not receiving payment for their services.

Gerard Klaes
Berthoud, Colorado

SIR – In their aggressive opposition to the liberalisation of immigration law, many American legislators and pundits have apparently ascertained that the great saga of immigration to the United States ended the moment their ancestors arrived.

Carsten Belanich
Seattle

A family type

SIR – It does a disservice to most divorced parents to perpetuate the myth that after divorce one parent generally raises the children alone ("The frayed knot", May 26th). In my experience, both divorced parents generally love their children and share responsibility for and time with their kids equally. There is usually also the added security of substantial transfers of child and/or spouse support payments. Many divorced parents are decent, caring people who respond to the crisis of divorce by working even harder to do their best for their children.

Michael McClelland
Cardiff, California

SIR – I was surprised at your tacit support for government intrusion into people's lives in order to promote marriage. One such bureaucrat's budget was "tiny: $100m a year". What happened to the tradition of liberalism? Since when is $100m for social-engineering projects ever justified?

Jeffery Zhang
New York

SIR – It is a commonly stated argument that children brought up within a marriage achieve more than those who are not. In supporting this conclusion you may just as well compare the success of children brought up in relationships where the father drives a luxury saloon with those from relationships where the father drives an old wreck. I know you'd agree that this would not justify subsidising the purchase of more expensive cars by the state. I would suggest that what really matters is how long and stable a relationship between the parents is—not whether the relationship is certified in some way.

Ian Barton
London

SIR – Marriage is “a wealth-generating institution”? I can only assume you have not had the opportunity of meeting my wife.

Ian Dane
Walton-on-Thames, Surrey

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Europe's population

Suddenly, the old world looks younger

Jun 14th 2007
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Adrian Johnson

Reports of Europe's death are somewhat exaggerated

EUROPEAN countries are buffeted by two global forces: atmospheric pressures that, as it were, change the weather, silently transforming societies and the assumptions of public policy. One is climate change (a change in the weather literally). The other is demography.

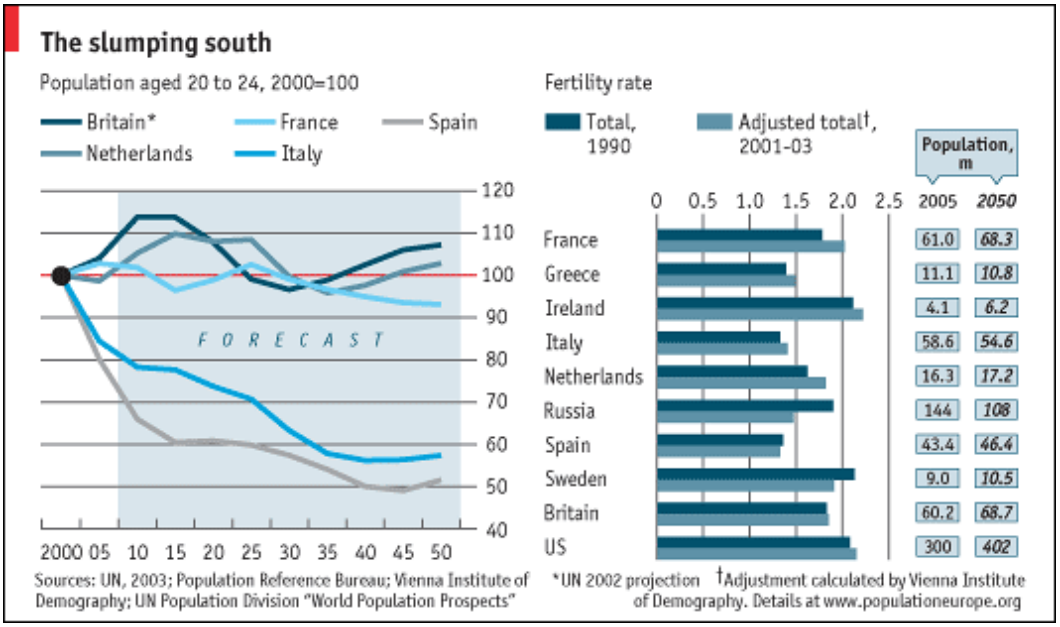
The two have a lot in common. Both are easily recognised but less easily understood. Both are products of complex forces and unobtrusive influences. Both create huge effects from minuscule changes. A rise in global temperature by one degree or a fall in fertility by one point may sound trivial but, over 100 years, will make the earth unbearably hot, or reshape the size and composition of societies.

Yet though every rich country has a climate-change policy, few have a population one (there are historical reasons for that). And just as everyone whinges about the weather, but does nothing about it, so everyone in Europe complains, but does nothing, about population. This article will argue that pessimism is no longer justified. It would be too much to say Europe's population is bouncing back. But its long-term decline is starting to bottom out, and is even rising in a few places.

On its face, this seems an odd assertion. In 1957, the year of the European Union's founding Treaty of Rome, every one of the 27 countries that are now EU members had fertility rates above 2.1 Now, none does. (The fertility rate is the number of children a woman can expect during her lifetime; 2.1 is the replacement level, the point at which the population stabilises.)

Received opinion holds, in the phrase of Auguste Comte, a 19th-century social scientist, that “demography is destiny” and that Europe is doomed by its death-spiral population numbers. American observers from Walter Laqueur, an academic, to Mark Steyn, a conservative polemicist, argue that Europe is fast becoming a barren, ageing, enfeebled place. Vast numbers of old people, they reckon, will be looked after, or neglected, by too few economically active adults, supplemented by restless crowds of migrants. The combination of low fertility, longer life and mass immigration will put intolerable pressure on public health, pensions and social services, leading (probably) to upheaval.

There are several possible objections to that gloomy forecast. One is that a growing population is not, of itself, necessarily a good thing, nor a falling one unambiguously bad. Another is that there is no short-term correlation between population change and wealth: Japan and South Korea have even lower fertility than Europe. But there is a simpler objection: the picture of relentless decline is wrong, or, to be accurate, half wrong. Europe is not in decline. Rather, as Jitka Rychtarikova of the Charles University in Prague argues, it no longer makes sense to talk about Europe as a single demographic unit at all. There are two Europes.



One is the familiar place of low fertility and population decline. Here, the fertility rate is below 1.5 and countries are struggling in a fertility trap. The low fertility belt runs from the Mediterranean to central and eastern Europe, embracing both old and new parts of the continent. The other, surprising Europe is a place of recovering fertility and rising population. It stretches from Scandinavia to France. Here, countries have escaped the fertility trap and the childbearing rate is around 1.8—not high, but higher than it was, and, in some cases, reaching the magic replacement level.

There is nothing odd in countries having different population patterns: you would expect that. But it is odd that countries should clump together into two broad clusters. That needs explaining.

In the decades after the second world war, rich countries everywhere experienced broadly similar trends. The bonds of traditional family life began to slacken. More women got jobs. People sought enjoyment and satisfaction more and more through individual pursuits, rather than in families. This social transformation, which also occurred in America and East Asia, led to a demographic bonus (a bulge of people in work) and to what might be called the postponement of everything. People left school later, left home later, married later, had children later. They also died later.

Low, low fertility Europe

The transition happened throughout Europe, but proceeded at different speeds in different places. In Scandinavia and the north-west it was gradual and consistent. In the Mediterranean and central-eastern Europe, it was a stop-start affair. There the Catholic church, buttressed by military dictatorships, kept “strong family” traditions alive. It encouraged marriage and children, and frowned on illegitimacy and women at work. This slowed the transition down. Then, when the dictatorships collapsed (or, in Italy, when post-war politics unravelled), the transition occurred in a rush as countries stampeded towards modernity. They became democratic and richer. They saw their cultural life flourish. And a generation of women started postponing childbirth. Fertility fell below 1.3 in Italy and Greece. The demographic bonus became a demographic onus.

Post-communist countries in eastern and central Europe reached the same point by a different route. Under communism, factories often provided free child care and higher salaries for parents with big families. But when communism collapsed, such policies disappeared. Combined with economic uncertainty, this sent post-communist nations tumbling into uncharted territory, with fertility rates falling even more precipitously than they had in the Mediterranean.

But that is not the end of the story. It explains why fewer children were born at a particular time, but not why childbearing stayed low. After all, there is no obvious reason why parents should choose to have only one child just because the Berlin Wall has come down. Events with a huge political significance may be, in demographic terms, just blips from which countries will recover sooner or later.

It is still possible that will happen. Women who were 20 when the wall fell have not yet reached the end of their child-bearing years. Perhaps birth rates will bounce back. But do not bet on it.

Germany not only has low fertility now, but has had for more than a generation. This suggests that "exceptionally" low rates can persist for decades. Admittedly, points out Michael Teitelbaum of the Sloan School in New York, Germany may simply be odd demographically. It also had low fertility in the 1920s, when few others did. But there are other reasons for doubting the "bounce back" thesis.

Women in their teens at the time of political transformation in Mediterranean countries are at the end of their child-bearing years. Their fertility rates have risen, but only slightly. There is little sign they produced a mini baby boom late in life.

Family variety

% of mothers who have completed their families by number of children

N*	Russia	Sweden	Italy	Germany	France	United States
0	8	14	15	26	14	15
1	30	16	25	25	20	19
2	44	40	42	30	32	32
3+	18	30	18	19	34	34

Source: UN Population Division, 2003 *Number of children

Italy has no more childless women than France and Sweden, countries with much higher fertility rates (see table). But more Italian mothers have just one child. The pattern is still more marked in Russia, where a third of mothers have a single child. One possible explanation is that, squeezed between family obligations from the past and current social arrangements which limit job flexibility or cheap child care, many Italian and Russian women are reacting by satisfying social pressures to produce a family to the smallest possible extent—by having one child. Such a reaction may be hard to change.

There are also some signs that women in Europe may be having fewer children than they want. A survey by Eurobarometer, the EU's pollsters, for example, found that women who had finished bringing up their families said they had wanted (on average) 2.3 children. But they actually had only 2.1. Perhaps they were not answering truthfully. But the evidence does suggest there is a mismatch between desired and actual fertility.

The implications of that are worrying. Ms Rychtarikova suggests women are postponing, and postponing, and postponing—then finding it is too late to have more children. This could be for medical, socio-economic, or personal reasons. But whatever the cause, it seems to mean fertility rates can overshoot downwards.

When that happens, you can get new social norms: a one-child, or no-child policy by example. In Germany over a quarter of young women are childless, an exceptionally high number. One study showed that, on average, the number of children German women want is just 1.75, far below the replacement level. Another found that a fifth of young German women (and even more young men) say that having no children is fine. This is a sharp contrast with almost all previous surveys, which showed the ideal of the two-child family persisted regardless of what was actually happening in the country. After two generations, it seems, young Germans have given up the unequal struggle to keep the two-child ideal alive.

In other words, very-low-fertility countries can fall into a trap. Women defer children in response to one-off changes. Fertility rates fall. Deferrals go on longer than expected. Fertility undershoots. This changes social norms and you get new family patterns: lots of one-child families in Italy or Russia; exceptional numbers of childless adults in Germany.

Liberty, fraternity, fecundity

But countries are not doomed to fall into this trap. Over the past few years, almost a dozen places have not only avoided it, but begun to reverse their decline. France is leading the way.

Last July the French statistical office announced new population projections. France's population, it said, would grow by 9m from 2005 to 2050, when it would level off at 70m. At that point, assuming Germany's

population continues to fall, France would become the most populous country in western Europe.

If that occurred, it would mark an historic recovery. France was the largest country in Europe up to the time of Napoleon, when it contained about a fifth of all Europeans and was the world's third-most-populous nation. The forecast growth would therefore negate 200 years of French paranoia about its more numerous eastern neighbour. Since European integration has been spurred, on the French side, by this fear, France's demographic recovery could have profound political implications for Europe.

France is one of three EU countries with a fertility rate above the magic replacement level (Denmark and Ireland are the others). It is natural to assume that this is because France also has many Muslim immigrants and Muslims have large families. Because France does not collect official statistics by religion, it is hard to know whether that assumption is accurate. But the country does register the birthplace of parents, so that one can calculate the family size of immigrants; and on the face of it, a study by Laurent Toulemon of the Institut national d'études démographiques appears to confirm the assumption. He found that immigrant women do indeed have high fertility: 2.5 compared with 1.65 for French-born women. But because immigrants make up only one-twelfth of women of childbearing age, this raises the national fertility rate only slightly.

However, Mr Toulemon also found that immigrants have a peculiar demographic profile: they are much more likely to have a baby during the first year or two after arriving in France than later. Young women, it seems, are waiting to conceive until they get to France. If you adjust their lifetime fertility rate to take account of this bulge of babies on arrival, you find immigrant fertility is about 2.2, not much above average. Immigrants are not pushing up the birth rate as much as they seem to be.

It is still possible that second- and third-generation Muslims (ie, those born in France) account for a disproportionate share of the country's high fertility. It is also possible that even if immigrants in France are not responsible for a higher birth rate, they are in other countries (Britain recently reported that 21.9% of births in 2005 were to mothers born outside Britain, compared with just 12.8% in 1996). Still, the evidence for all this is patchy; and it does not suggest that immigrants are responsible for a particularly large part of the overall fertility rise, in France at least.

Of course, like Germany, France is demographically unusual. It was the first country in the world to experience long-term population decline, starting in the late 18th century. Had it maintained the same birth rate as Britain since 1800, France would today have 150m people, surpassing Russia. The French have also long supported government policies to encourage more children, which other Europeans have rejected (perhaps because the Nazis were keen on them). The government still hands out medals for large families. French culture, the argument runs, is a good thing, so the more French people there are, the better.

But France is not unique. Official forecasts predict Britain's population will rise 15% by 2050, an extra 9m people. For Sweden, the forecasts say the population will grow by about a fifth. Some of this is the result of immigration and rising longevity but, according to David Coleman, a demographer at Oxford University, the recovery is also the result of older women having more children “almost sufficient to compensate for the sharply reduced birth rates of younger women”. This is exactly what was hoped for, but does not seem to be happening yet, in the Mediterranean and eastern Europe.

If you take account of late childbearing, you find that 16 European countries, with a total population of 234m, now have fertility rates of 1.8 or more. Half are above 2.0. Despite near-panic about “inevitably” declining population, then, some European countries are growing quite strongly. They are rare examples of bucking the trend that, as countries get richer, their birth rates fall.

Why? There are no obvious answers. The French run policies to increase the birth rate; the British do not. Most high-fertility countries are high-tax, high-welfare ones (France, the Netherlands, Scandinavia). But so is Germany, and its fertility has been declining for decades; whereas Ireland is not, and its population is growing. Maybe Ireland and France are responding to Catholic teaching on big families? Hardly. Remember Italy and Poland.

Though it is hard to be sure, the most plausible explanation is that some countries have struck a successful balance between life and work that enables parents to raise children without sacrificing their careers, and that this encourages child-rearing. If the explanation is right, it does not matter that France doles out presidential medals. But it does matter that it has an excellent, state-subsidised system of creches, to which mothers are happy to entrust their offspring.

Nor is it just a matter of guaranteeing minimum parental leave—or Germany, with generous provisions,

would have lots of babies. Rather, the evidence suggests a whole host of measures, often designed to achieve other social goals, can boost the birth rate almost as a side-effect. These measures include a flexible education system (so parents can go back to school after having children); flexible working hours and, if Scandinavia is anything to go by, a strong emphasis on sexual equality.

This involves a shift of values as much as a change of policies. Northern countries have removed the stigma from illegitimacy (France stopped using the term in official documents in 2005; 55% of births in Sweden are outside wedlock). By and large, Mediterranean countries have not, and nor have Muslims in Europe. High-fertility countries do not merely tolerate mothers with paid employment; they encourage them to return to work and insist employers keep jobs open.

Go forth and multiply (a bit)

None of this means that Europe has broken the chains of its demography. The EU's overall population will fall by 7m by 2050. The so-called support ratio (roughly, the proportion of workers to pensioners) is declining everywhere. And as Mr Coleman points out, Europe's share of global population will fall from 21% now to 7% by 2050. Even its successes are only relative. A fertility rate of 1.8 is still below replacement.

All the same, small shifts in fertility or the retirement age can go a long way to alleviating the burdens of population decline. Raising the retirement age by a year or two can make the difference between the solvency and insolvency of pensions. On current rates, Italy will have a mere 1.4 workers to support each retired person by 2050. France and Britain will have a much more favourable age pyramid, with more than two workers per pensioner.

All this is a world away from the other rich country with demographic growth: America. Much American debate focuses on the role of marriage and the traditional family in fostering a healthy society. In Europe, by contrast, only countries with many births outside wedlock and with high female participation rates have reasonably high birth rates. Those that have sought to maintain traditional family ties have seen fertility collapse.

Europeans are only starting the process of recovery. Compared with America, even the growing parts of the continent have modest fertility rates and high dependency ratios. But if Europe has a demographic future it lies in Britain, France and Scandinavia, not across the Atlantic.

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The candidates: Barack Obama

The campaign's brightest star

Jun 14th 2007 | DETROIT AND RENO
From The Economist print edition

AP

Crowds love him. But can the charismatic young senator from Illinois lead?

LIKE a movie star, he is late, but that only whets his fans' appetite to see him. Thousands stand under the vicious mid-day sun in a park in Reno, Nevada. No other presidential candidate could pull such a large, passionate or politically diverse crowd. Reggie Willis, a medical student, voted for George Bush in 2004 but now says Barack Obama is "the guy America is waiting for". Eileen Larsen, from California, thinks he is "one of the best I've seen", but worries that her vote will make no difference because Mr Bush is planning a coup.

Mr Obama eventually moseys onto the stage and starts massaging the crowd with his seductive baritone. The current philosophy in Washington, he says, is that "if you are a child that didn't have the wisdom to choose the right parents"—he pauses—"you're on your own." Everyone cheers. He calls for a new, less selfish, less timid politics that "reflects the core decency of the American people". The crowd is too wound up in loving him to wonder what, in practice, that might actually involve.

Of all those running for president, Mr Obama is by far the best orator. People feel that he is addressing them individually. Michelle, a fan in Reno who works with the mentally ill, says she posted a suggestion on his website urging steps to make it harder for crazy people to buy guns. Later, to her delight, Mr Obama made precisely that suggestion. Michelle thinks she prompted him. Others suspect that the distinction belongs to the crazy gunman who murdered 32 people in Virginia that week.

Three years ago no one had heard of Mr Obama—he was just a local politician in Illinois. Then he gave a keynote address at the Democratic Party's convention in 2004, when he was running for a seat in the US Senate. His optimism and his life story went down splendidly. He is, he told the convention, the son of a Kenyan man who grew up herding goats and went to school in a tin-roof shack. His father got a scholarship "to study in a magical place, America", where he married a white woman from Kansas. Although they were not rich, their son went to Harvard. "In no other country on earth is my story even possible," he said.

He won his Senate race easily. And as Democratic minds turned towards 2008, the prospect of 28 years of Bushes and Clintons set some searching for an alternative. The idea that a first-term senator with no executive experience since running the *Harvard Law Review* could run for the most powerful office on the planet at first seemed absurd. But Mr Obama's evident star power makes it seem plausible.

Race and the race

It probably helps that he is black (or, at least, mixed-race). A generation ago, this would have been a fatal disadvantage. But now many white Americans have what Mr Obama calls a “hunger for any optimistic sign from the racial front”. Many would love to elect a black president, to demonstrate to the world and themselves that they are not bigots. Other things being equal, Mr Obama's blackness “might tip the scales,” says Lisa Rabinowitz, a white social worker in Reno. “It's time. So far it's been all upper-class white males.”

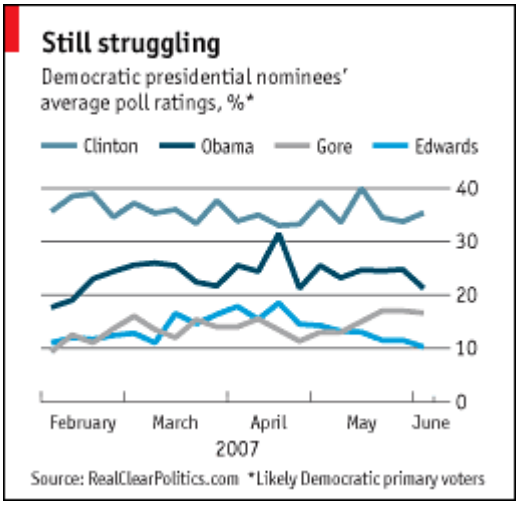
A recent study by the Pew Research Centre offers evidence that Americans are indeed ready for a black president. First, 92% say they would be prepared to vote for a black candidate, up from 37% in 1958. More important, white voters appear no longer to be lying about this. As recently as the early 1990s, polls before elections pitting a black candidate against a white one usually predicted that the black candidate would do much better than he or she actually did. Now, they are pretty accurate, suggesting that most covert racists have either died or at least become honest.

This is a big change, and Mr Obama is well-positioned to take advantage of it. Unlike Jesse Jackson or Al Sharpton, he does not sound professionally aggrieved. He has struggled with racial issues, to be sure. In his autobiography, he recalls his boyhood horror at seeing a man disfigured by skin-whitening chemicals. He writes that he punched the first person to call him a “coon”. But as an adult, he has opted for conciliation over conflict. He even flirts with the idea of affirmative action based on class instead of race.

Some black Americans worry that he is not really one of them because his ancestors were not brought to America as slaves and he played no role in the civil-rights movement. He addressed such worries, brilliantly, in a speech in Selma, Alabama, on the anniversary this year of a voting-rights march that was dispersed with tear gas and bullwhips.

His grandfather, he said, was a cook for the British in Kenya, who called him a “house boy” even when he was 60. “Sound familiar?” he asked. Without the civil-rights movement, his white mother and black father might not have wed. “My very existence might not have been possible had it not been for some of the folks here today,” he said, with a nod at the civil-rights lions in the audience. “So don't tell me I don't have a claim on Selma, Alabama. Don't tell me I'm not coming home to Selma, Alabama.”

Can all this charisma win him the nomination? The polls say probably not. He cannot match Hillary Clinton's organisation on the ground. He trails her by ten points or so in national polls of likely Democratic primary voters (see chart), and he leads in none of the early primary states: it is entirely possible that he may fail to win a single primary next year. On the other hand, he raised more money for the primaries than Mrs Clinton in the first quarter of this year—an astonishing feat for a newcomer—and is rumoured to be doing even better in the second. Head-to-head polls tend to suggest he has a better chance than Mrs Clinton of beating either of the top Republican candidates, Rudy Giuliani and John McCain. So he must be taken seriously. What, then, does he stand for, besides overcoming partisan divisions and speaking audaciously of hope?



Beef, though not enough of it

On Iraq, his position is clear. Unlike his main rivals, he opposed the war from the start. This wins him kudos with the Democratic base, but hardly guarantees that he would deftly extricate American troops from the mess there, or impresses waverers that he would be tough on security. Still, he is far from the dove some of his less attentive fans imagine him to be. He would expand the army and marines by more than 90,000 and give them better equipment. He says that “no president should ever hesitate to use force”, unilaterally if necessary, when America or its vital interests are attacked or threatened.

On foreign policy more broadly, he is both ambitious and idealistic. He says the job of leader of the free world is open and he wants to fill it. He wants to work with Russia to secure loose nuclear materials while simultaneously pressing for more democracy and transparency there. He would strengthen NATO, build

new alliances in Asia, halt the genocide in Darfur, push for peace in the Middle East and help the world's poorest countries build functioning market economies. Admirable goals, but he gives only a sketchy idea as to how he would achieve any of them.

His energy policy is also slightly underwhelming. In a speech in Detroit last month, he stated the problem in epic terms. After Pearl Harbour, he said, President Franklin Roosevelt asked America's carmakers to start making tanks and war planes. He demanded seemingly impossible quantities of arms, but Detroit miraculously delivered. Now, said Mr Obama, America's oil addiction funds terrorists and jeopardises the planet, so it is time for car firms to sacrifice once more for the nation by accepting huge subsidies to make more eco-friendly cars.

AP

Some things you pick up fast

Specifically, he offered to lighten the burden of health-care costs that adds $1,500 to every car General Motors makes. This is somewhat gimmicky: he calls it “health for hybrids”. Asked why he rejects a carbon tax, the simple tool for reducing greenhouse emissions favoured by nearly all economists, he said he could see why some people like it, but he thought a cap-and-trade system would work better in practice. “Tax” is a dirty word, he might have added, and coal states vote.

He does not talk much about economics. He wants to spend more money on lots of things: schools, health-care subsidies, veterans' benefits and so on. He thinks globalisation is inevitable, but he does not sound very happy about it. His support for free trade is tepid. He favours trade deals only if foreigners agree to a host of labour and environmental standards and if American workers who lose their jobs are well looked after. He voted for a trade deal with Oman, but against one with Central America. He favours universal health care, but his plan is both less bold and less rigorously costed than that of his Democratic rival, John Edwards.

Occasionally, Mr Obama embraces a truly atrocious idea. For example, he has co-sponsored a bill proposed by Tom Harkin, an Iowa Democrat, requiring employers to provide equal pay for jobs the government deems “comparable”. Mr Harkin is incensed that, for example, social workers (who are mostly women) are paid less than parole officers (who are mostly men). He attributes the gap to sexism, rather than to the fact that you have to pay people more to deal with criminals all day. His solution would, in effect, let bureaucrats set wages even for private employers. One hopes Mr Obama was cynically fishing for support in Iowa when he endorsed it.

An Obama presidency would carry great symbolic weight. For the son of a goat-herding Kenyan to enter the White House would signal to many, in and outside America, that the American dream still works. His opposition to the two policies that have hurt America's image most—invading Iraq and making use of torture—will convince many that he represents a fresh start. But his inexperience is worrisome, and the source of Mrs Clinton's greatest advantage over him. He is decent, intelligent and a good listener. But as George Will, a conservative columnist, put it, he is asking Americans to “treat the presidency as a nearly entry-level political office”. Mr Obama once cruelly pointed out that experience is what Dick Cheney and Donald Rumsfeld have plenty of. Yet it still counts for something, after all.

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The immigration bill

Lunching for legalisation

Jun 14th 2007 | WASHINGTON, DC
From The Economist print edition

The latest attempt to fix the immigration system is stuck

Get article background

FOR only the second time since he became president, George Bush went to lunch with Senate Republicans on Capitol Hill on June 12th. They entertained him frugally: he had a peanut-butter and jam sandwich. And when he tried, strenuously and politely, to persuade them to revive his stalled immigration-reform plan, they gave him more peanuts.

The bill, a compromise drawn up by a small group of liberal and conservative senators, looked close to death last week when its supporters came 15 votes short of the 60 votes (out of 100) they needed to end debate and bring it to a vote. The Senate majority leader, Harry Reid, a Democrat, pulled the bill until, as he put it, the Republicans get their act together.

Both parties are divided on the issue, but the split is bitterest among Republicans. The party's pro-business wing favours easier immigration, so it supported provisions to allow in 400,000 guest workers a year and award more green cards to foreigners with useful skills. But its support is only lukewarm. The bill's points system substitutes the government's judgment for that of employers when assessing which immigrants the country needs. And an amendment slashing the guest-worker programme to 200,000 means that there will not be enough of them to meet the demand for their labour in America's fields and restaurants.

The Republicans' nativist wing is hotly opposed to the bill because it allows the estimated 12m illegal aliens already in the United States to become legal straightaway, and offers them a path (albeit a long one) to citizenship. This, the nativists wail, is an “amnesty” that will attract another surge of illegals across the border.

Mr Bush is trying to placate this group with promises of tougher border security. The bill calls for miles of fences, thousands of new border guards, a secure identity card for immigrants and a new obligation for employers to verify that anyone they hire is legally entitled to work. Employers resent the burden of doing the immigration service's job for it. Nativists, meanwhile, don't believe that Mr Bush is serious about enforcing the law. Nine Republican senators sent him an open letter demanding that he secure the border first before worrying about anything else. Another two bemoaned the fact that after the last big immigration reform in 1986, similar promises of enforcement were broken. Even blatant employers of illegals are rarely punished and almost never jailed.

Mr Bush has responded with a public-relations offensive to convince conservatives that he is as tough as he says he is. He said he would consider a separate emergency funding bill for border security. Two of his cabinet, Carlos Gutierrez, the commerce secretary, and Michael Chertoff, the homeland security chief, are appearing on television and talk radio to make the case for immigration reform. Lowlier officials are making their case on conservative blogs. Immigration agents are feeding lists of those who have ignored deportation orders into the FBI's crime database in the hope that the police will identify and collar them if they stop them for traffic offences. Some will, but others will doubtless prefer to pursue dangerous criminals.

The White House insists that the status quo is unacceptable. But the opponents of reform are more passionate than its supporters, the compromise bill before the Senate has parts that rile everyone and the Democrats are in no hurry to help Mr Bush win a domestic victory. So the bill's chances look dim. Getting past thousands of border patrol agents is easy, but 41 senators can block anything.

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Vigilante towns

Not welcome here

Jun 14th 2007 | FARMERS BRANCH, TEXAS
From The Economist print edition

Taking matters into their own hands

Get article background

A FEW years ago, Tim O'Hare noticed something strange in his personal-injury practice. Every day, he says, people called in complaining that they had been “hit by somebody that can't speak English and has no auto insurance”. He concluded that this was the result of illegal immigration in Farmers Branch, a slightly scuffed-looking suburb of Dallas. He also thought that property values were not appreciating fast enough and the school district had declined.

So Mr O'Hare, a member of the Farmers Branch City Council, decided to act. He brought in an ordinance requiring landlords to verify that prospective tenants were American citizens or legal residents. If not, the landlords could be fined up to $500 per tenant per day.

The ordinance was criticised as racist and impractical. Landlords are not really in a position to establish the legal standing of their tenants and might just discriminate against Hispanics rather than risk being fined. But the ordinance was popular. Last month more than two-thirds of voters backed it in a ballot. And immigration opponents did not stop there. The mayor of Farmers Branch, who opposed the ordinance, had his house vandalised twice.

Texas courts quickly issued a restraining order against the city to prevent the ordinance from taking effect. Mr O'Hare says he will take the issue to the federal Supreme Court, if necessary. Farmers Branch is not alone. Last year, the small town of Hazleton, Pennsylvania, enacted a similar ordinance only to run into legal trouble. Other anti-immigration measures have sparked protests in places such as Avon Park, Florida.

Some individual Americans are taking their own stands against illegal immigration as well. “Minutemen” are self-appointed people who have taken it upon themselves to help the authorities police the country's borders. And a cheesesteak salesman in Philadelphia came under fire last year when he posted a sign telling his customers that they had to speak English.

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Climate change

Emissionary positions

Jun 14th 2007
From The Economist print edition

Despite the president's change of heart, carbon policy remains contentious

ASK Washington's pundits about America's future policy on global warming, and most of them will tell you that things are changing too quickly to make firm predictions. Who, after all, could have foreseen that George Bush would overcome his reluctance to stem emissions of greenhouse gases—especially under the auspices of the United Nations—and agree to both at last week's summit of rich countries in Germany? By the same token, who would have imagined that so many prominent congressmen and businessmen would be calling for fierce cuts in America's emissions? But one thing remains predictable: that despite their alleged conversion to the same cause, the president, Congress and businesses will not agree on how to advance it.

There is certainly less to Mr Bush's new policy than meets the eye. All he has said is that America will try to convene talks later this year with the governments of the ten or 15 biggest polluters, in an attempt to come up with a global target for emissions reductions by the end of next year. That agreement, in turn, would help to advance negotiations on a successor to the UN's existing treaty on global warming, the Kyoto protocol, which expires in 2012.

But Mr Bush has not proposed any specific target himself, much less a timeframe for meeting one. He has also been silent on the vexed question of how responsibility for cuts in emissions should be shared between rich countries like America and poorer ones such as India and China. There is no talk of enforcement mechanisms, although there would be international monitoring of emissions to determine how well each country was doing.

Indeed, Mr Bush still seems to prefer aspirational targets to firm limits. He argues that limits would be counterproductive if they crimped growth, since that would reduce firms' ability to invest in cleaner technology. So he remains suspicious of cap-and-trade schemes, whereby governments place an overall limit on emissions, and then sell or give away an equivalent number of tradable rights to pollute.

Instead, the president wants to reduce emissions by tangential means, such as substituting ethanol for petrol, and improving the efficiency of cars and appliances. The Senate is currently debating a bill along those lines, and Nancy Pelosi, the speaker of the House, has pledged to produce similar measures by July 4th.

But Congress and the president disagree on the details. The White House has complained that the fuel-economy standards in the Senate's bill are too rigid (those firm limits again). It dislikes a rule that would require 15% of America's electricity to come from clean sources such as windmills and solar panels by 2020 (yet another overly rigid target). It also wants to reduce America's reliance on imported oil by spurring the production of diesel made from coal, despite the clouds of pollution it produces (no problem with rigid targets there). Predictably, congressmen from states with car factories and coal mines, and not much wind or sunshine, agree.

Meanwhile, many congressmen would prefer to address global warming head on. Mrs Pelosi has promised to do so in another bill later this year, as has Harry Reid, the Senate majority leader. But the fact that Mr Reid and Mrs Pelosi have decided to separate ethanol and fuel economy from a more sweeping initiative suggests that they think climate change is still too tricky to tackle.

Mr Reid's disapproval is likely to doom one amendment to the current Senate bill that would set up a registry to measure American firms' greenhouse-gas emissions. But if America's politicians cannot even agree to monitor emissions, environmentalists ask, how will they ever agree to cut them?

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Ethnic towns

Ghetto fabulous

Jun 14th 2007 | LONG BEACH AND LOS ANGELES
From The Economist print edition

Making a buck out of Little Ethiopia and Cambodia Town

"CAMBODIAN," says Richer San, waving his arm towards a car-repair shop. Driving down Anaheim Street, he eagerly points out other businesses owned by his countrymen. "Cambodian; Cambodian; Vietnamese landlord, Cambodian business; all Cambodian. And we're trying to buy that one." As a tourist magnet, the mile-long string of cafés and strip malls hardly rivals, say, San Francisco's Chinatown. But that may change. Mr San and others are negotiating with the city of Long Beach, east of Los Angeles, to create America's first Cambodia Town.

If they succeed, it will join a fast-growing club. Before 2000 there were four signposted ethnic enclaves in and around Los Angeles: Chinatown, Little Tokyo, Koreatown and Little Saigon in Orange County. Since then a Little Armenia has appeared, together with a Thai Town, a Historic Filipinotown, a Little Ethiopia and a second Saigon Town. Other cities are following. Last week San Jose, in northern California, was considering a Vietnamese business district.

Immigration is one reason for the explosion of ethnic enclaves. The Asian population of Los Angeles and Orange counties grew by 15% between 2000 and 2005, to 1.7m. A bigger reason is marketing. Local officials have long seen such places as a cheap way of luring tourists. More recently, many have been influenced by Richard Florida, a sociologist who argues that young, educated workers are attracted to tolerant melting-pots. Celebrate your immigrants and gays, the thinking goes, and your city might become the new Silicon Valley.

Even as cities tout their ghettos, though, the ghettos are emptying. Charles Zhang, a demographer, points out that the Chinese and Vietnamese are leaving traditional inner-city enclaves and forming new clusters in the suburbs. California's Koreans are spreading out, too: less than a quarter now live in Los Angeles. Newer immigrants are likely to follow the same path. Well-to-do Cambodians are already drifting away from urban Long Beach in search of cheaper houses and better schools in the suburbs. Mr San recently joined them.

Indeed, California is now such an ethnic mish-mash that it is hard to tell where one enclave ends and another begins. Los Angeles's Armenian and Thai residents had to agree to share a section of Hollywood Boulevard. In 2004 a group of Indian businessmen in Artesia, a small suburb, tried to label their shopping district "Little India". They failed. Artesia contains fewer Indians than whites, Mexicans, Chinese or Filipinos.

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Grandparents raising grandchildren

Skipping a generation

Jun 14th 2007 | CHICAGO
From The Economist print edition

Millions of grandparents are filling in for missing or misguided parents

SOME kinds of non-traditional family get more attention than others. In the 1990s welfare reform flashed a spotlight on America's poor single mothers. More recently, ballot initiatives on gay marriage and unions have put more children with two mothers or a pair of fathers in the public eye. By contrast, children being brought up by their grandparents rarely attract public interest. Yet over the past few years federal and state governments have quietly been fiddling with their policies in order to help these families more effectively.

Grandparents are now raising an awful lot of America's poorest and most troubled children. In 2000, the first time that the Census Bureau took a proper count, 2.4m grandparents were bringing up their children's kids. To put that in perspective, fewer than 2m poor American families now receive formal welfare payments under Temporary Assistance for Needy Families, the programme that sparked a fierce national debate when welfare was reformed a decade ago.

Many of those grandchildren are in poor shape. For starters, the events that have left them parentless usually mean that their lives have been hard. In most cases, the parents are missing because of drugs, prison, mental illness, or a history of neglecting or abusing their child.

Moreover, the grandparents in these families tend to have their own limitations. A 2003 study by the Urban Institute, a centre-left think-tank, found that among grandparents responsible for raising children, 37% had incomes below the federal poverty threshold, and 66% were low-income (less than twice the poverty level). One-third of the grandparents raising children had not finished high school, and 62% had no college education. There is also an obvious generational gap in energy levels: whereas 70% of the grandparents were over 50 years old, the study found, 70% of the children were 11 or younger. Statistics apart, it is also clear that many of these grandparents did not do a good job of bringing up their own children.

One way federal and state governments have tried to help is by tweaking elderly-assistance programmes to account explicitly for grandparents' needs. In 2000, when Congress renewed the Older Americans Act (a collection of goodies for retired folk) it added a new programme offering the states grants to help grandparents.

Some states now offer better information and counselling: on what kind of health care is available, how to help with homework and so forth. Bruce Carver, who co-ordinates many services for old people in western Kentucky's Pennyrile region, says that one popular part of the new programme has been respite care. This pays for the grandparents to have someone else mind the kids for a few weeks when school is out, since the teachers can no longer give them a breather everyday.

Two problems still stand out, however. One is mental health. A study last year by the Chapin Hall Centre for Children, at the University of Chicago, focused on child-rearing grandmothers in a couple of Chicago suburbs. It pointed to a link between the grandmothers' symptoms of depression and the grandchildren's emotional and behavioural troubles, but found that many of these families were not getting the help they needed.

The other problem involves custody. For various reasons, such as a private agreement with the parents or some sort of dispute, grandparents often do not have formal custody. Yet without it, many find it extremely difficult to obtain the health care to which their grandchildren are entitled, or to get them into a convenient public school. Some grandparents also face a deeply painful choice: whether to fight for custody when the parents want their children back but still seem unfit. A legal battle generally means the grandparents attacking their own children in court.

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Cicadas in Illinois

Return of the noisy teenager

Jun 14th 2007 | HINSDALE
From The Economist print edition

The magicicada emerges for a few weeks of chirping, mating and death

The 17-year itch

UNDER the woodlands and back yards of northern Illinois, more than a trillion grubs have woken from 17 years of underground slumber. Over the past month, the periodical cicadas of Brood XIII, native to the area, have crawled up roots, through the earth's surface and onto tree trunks everywhere, to moult and spread wings. Carl Strang, a naturalist with DuPage county, says a single acre can produce 1.5m of them. Within weeks, every one of these bugs will have dropped dead. Till then the males fly in biblical swarms among the treetops, serenading the fair sex. After much mating, females sow eggs among the twigs. Their young will repeat this dance in June 2024.

Locals call them “locusts” but the *Magicicada* species of North America are as harmless as can be. Having fed on root sap during their underground life, mature cicadas have no need to eat and indeed no mouths. With no bite, sting or poison, they are gentle, even helpless.

The cicada is also tasty to fellow animals—which is precisely the point of its extraordinary life-cycle. Evolutionary biologists call this a strategy of “predator satiation”: without natural defences, the cicada in its billions allows every other bug, bird, chipmunk and pet dog in sight to gorge itself silly. When every predator has been sated, only a fraction of the brood has been lost. The rest are free to idle through a brief coda to their long subterranean lives. They spend it in sunshine, music and insect love.

There are 12 broods of 17-year cicadas scattered around the Midwestern and eastern United States, and three broods on a 13-year cycle. It is no coincidence that the span of each brood's cycle is a prime number of years. If a brood were to emerge in cycles divisible by a smaller number, then local predators could reap rewards by synchronising their own shorter cycles with one of the divisors.

In Provence, the locals admire the joyful song of their annual cicada, *la cigale.* The more adventurous Illinoisans enjoy eating its periodical cousin. Baked, battered, sautéed and occasionally raw, cicadas feed a fair few humans in these parts. They are mildly crunchy, with a woody flavour and notes of almond, or potato. Were they marketed as *crevettes du bois*, they might almost find a future among local slow-food connoisseurs. But once every 17 years is perhaps too slow, even for the most patient of Midwestern mankind.

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Lexington

Vote for me, dimwit

Jun 14th 2007
From The Economist print edition

Kevin Kallaugher

How the electorate is irrational

ANYONE who follows an election campaign too closely will sometimes get the feeling that politicians think voters are idiots. A new book says they are. Or rather, Bryan Caplan, an economics professor at George Mason University, makes the slightly politer claim that voters systematically favour irrational policies. In a democracy, rational politicians give them what they (irrationally) want. In “The Myth of the Rational Voter”, Mr Caplan explains why this happens, why it matters and what we can do about it.

The world is a complex place. Most people are inevitably ignorant about most things, which is why shows like “Are You Smarter than a 5th Grader?” are funny. Politics is no exception. Only 15% of Americans know who Harry Reid (the Senate majority leader) is, for example. True, more than 90% can identify Arnold Schwarzenegger. But that has a lot to do with the governor of California's previous job pretending to be a killer robot.

Many political scientists think this does not matter because of a phenomenon called the “miracle of aggregation” or, more poetically, the “wisdom of crowds”. If ignorant voters vote randomly, the candidate who wins a majority of well-informed voters will win. The principle yields good results in other fields. On “Who Wants to Be a Millionaire?”, another quiz show, the answer most popular with the studio audience is correct 91% of the time. Financial markets, too, show how a huge number of guesses, aggregated, can value a stock or bond more accurately than any individual expert could. But Mr Caplan says that politics is different because ignorant voters do not vote randomly.

Instead, he identifies four biases that prompt voters systematically to demand policies that make them worse off. First, people do not understand how the pursuit of private profits often yields public benefits: they have an anti-market bias. Second, they underestimate the benefits of interactions with foreigners: they have an anti-foreign bias. Third, they equate prosperity with employment rather than production: Mr Caplan calls this the “make-work bias”. Finally, they tend to think economic conditions are worse than they are, a bias towards pessimism.

Mr Caplan gives a sense of how strong these biases are by comparing the general public's views on economic questions with those of economists and with those of highly educated non-economists. For example, asked why petrol prices have risen, the public mostly blames the greed of oil firms. Economists nearly all blame the law of supply and demand. Experts are sometimes wrong, notes Mr Caplan, but in

this case the public's view makes no sense. If petrol prices rise because oil firms want higher profits, how come they sometimes fall? Surveys suggest that, the more educated you are, the more likely you are to share the economists' view on this and other economic issues. But since everyone's vote counts equally, politicians merrily denounce ExxonMobil and pass laws against “price-gouging”.

The public's anti-foreign bias is equally pronounced. Most Americans think the economy is seriously damaged by companies sending jobs overseas. Few economists do. People understand that the local hardware store will sell them a better, cheaper hammer than they can make for themselves. Yet they are squeamish about trade with foreigners, and even more so about foreigners who enter their country to do jobs they spurn. Hence the reluctance of Democratic presidential candidates to defend free trade, even when they know it will make most voters better off, and the reluctance of their Republican counterparts to defend George Bush's liberal line on immigration.

The make-work bias is best illustrated by a story, perhaps apocryphal, of an economist who visits China under Mao Zedong. He sees hundreds of workers building a dam with shovels. He asks: “Why don't they use a mechanical digger?” “That would put people out of work,” replies the foreman. “Oh,” says the economist, “I thought you were making a dam. If it's jobs you want, take away their shovels and give them spoons.” For an individual, the make-work bias makes some sense. He prospers if he has a job, and may lose his health insurance if he is laid off. For the nation as a whole, however, what matters is not whether people have jobs, but how they do them. The more people produce, the greater the general prosperity. It helps, therefore, if people shift from less productive occupations to more productive ones. Economists, recalling that before the industrial revolution 95% of Americans were farmers, worry far less about downsizing than ordinary people do. Politicians, however, follow the lead of ordinary people. Hence, to take a more frivolous example, Oregon's ban on self-service petrol stations.

Finally, the public's pessimism is evident in its belief that most new jobs tend to be low-paying, that our children will be worse off than we are and that society is going to hell in a variety of ways. Economists, despite their dismal reputation, tend to be cheerier. Politicians have to strike a balance. They often find it useful to inflame public fears, but they have to sound confident that things will get better if they are elected.

Easier to diagnose than to cure

In short, democracy is a mess. But dictatorship is worse. Mr Caplan observes that Winston Churchill's aphorism—that democracy is “the worst form of government, except all those other forms that have been tried from time to time”—usually cuts the conversation short. He does not think it ought to. To curb the majority's tendency to impose its economic ignorance on everyone else, he suggests we rely less on government and more on private choice. Industries do better when deregulated. Religions thrive when disestablished. Market failures should be tackled, of course, but always with an eye for the unintended consequences of regulation. Mr Caplan is better at diagnosis than prescription. His book is a treat, but he will never win elective office.

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Award

Jun 14th 2007
From The Economist print edition

James Astill, now our Delhi correspondent but previously our defence correspondent, has won the Gerald Ford Prize for Distinguished Reporting on National Defence.

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Mexico

State of siege

Jun 14th 2007 | MEXICO CITY, MONTERREY AND VERACRUZ
From The Economist print edition

Reuters

A government's uphill struggle against drug trafficking and the violence it spawns

Get article background

IT IS so hot in Veracruz that they put ice in the beer. Even then, it rapidly grows tepid. But for the heat, you could confuse much of this port city with a slice of American suburbia—apart from a few square blocks of the faded colonial centre. Chain franchises line the streets and traffic flows smoothly. Until recently, Veracruz, far removed from the border, which is the front line of Mexico's drug war, has been relatively calm. But the steamy heat has failed to prevent the upsurge in Mexico's narco-violence reaching its once peaceful streets.

Earlier this month gunmen armed with automatic rifles shot up a betting-shop in the town, one of five around the country that were simultaneously attacked. In March, two bodies were left wrapped in a sheet at the local television station. A few days later, a severed head was delivered to the town's army barracks. Last autumn a local crime reporter was murdered. None of this has made headline news; in Veracruz, as in much of the rest of Mexico, such horrors have become the norm.

On the other side of the country, in the northern desert state of Sonora, police fought a pitched battle with drug gangs last month, in which 22 people were killed. A few days later, the local newspaper in Sonora temporarily shut down, saying that it could not function. The same week, two reporters for TV Azteca in Monterrey, the country's third largest city in the state of Nuevo León, went missing. On June 12th a state congressman was killed in a hail of bullets in his car just outside Monterrey's city hall. In the state of Tabasco, down the coast from Veracruz, the local minister of public security was the target of an assassination attempt in March after troops raided the local police headquarters. And in late May, a high-ranking narcotics investigator was murdered in a well-to-do Mexico City neighbourhood.

The best-laid plans of mice and men

In this country of just over 100m inhabitants, there were 1,600 murders in 2005 linked to organised crime, 2,200 in 2006 and more than 1,200 so far this year. When he took office on December 1st, Mexico's new president, Felipe Calderón, vowed to make the fight against organised crime his top priority. The army was promptly sent in to the worst trouble spots where the local police were either too few, too ineffectual or too corrupt to cope. Plans were also announced to restructure the less venal, but also ineffectual, federal police.

Ask almost any public-security expert in Mexico, and he will tell you that Mr Calderón's steps were necessary and right. The men he has appointed to lead his crime-fighting team—the secretary of public security and the attorney-general—are widely seen as able, intelligent and honest. None of his critics has been able to come up with any qualitatively different schemes. Even Andrés Manuel Lopéz Obrador, his left-wing opponent in last year's presidential elections, proposed increased use of the army.

Thirty thousand troops have been deployed around the country. One magazine, *Proceso*, which has been a consistent foe of the president, recently called the situation, “Calderón's Iraq”. In addition to the regular troops, 15,000 of the 18,000 members of the Federal Preventive Police (PFP), a civil force that falls under the public-security ministry, are in fact members of the army on secondment. Among Mr Calderón's ideas for reforming the police is to merge the PFP with the Federal Agency of Investigation (AFI), currently part of the attorney-general's office.

This, says Eduardo Medina Mora, the attorney-general, is now under way. It helps that Mr Medina Mora was minister of public security in the previous administration, when Genaro García Luna, the current security minister, was head of the AFI. Operational control of the AFI has already passed to Mr García Luna, by order of the president. However, a full reorganisation awaits enabling legislation. In March Mr Calderón sent a legislative package, including the proposed merger, to Congress, but it has stalled. Until it is passed, no real improvement in policing can be expected.

César Camacho Quiroz, a deputy from the opposition Institutional Revolutionary Party (PRI) and chairman of the lower house's justice committee, objects that the package “seems dangerous” because it does not provide adequate checks and balances—and these are sorely needed in Mexico. Its National Commission on Human Rights is the “most expensive and inefficient in the world”, says Sergio Aguayo, a political commentator. The human-rights ombudsman's office is highly politicised and incapable of standing up to what Amnesty International describes as the systemic “arbitrary detention, torture, unfair trials and impunity” in the country.

An export industry

Trying to reform a justice system that cannot cope with disorganised crime, let alone the organised variety, is a Herculean task. José Natividad González Parás, governor of Nuevo León, bemoans a “grave lack of attention on the part of the American authorities, who have been occupied elsewhere”. A more diplomatic, though no less critical, Mr Medina Mora notes that American efforts to control drug consumption have “not been historically as strong as they should be if they really want to solve this problem”. But in the two areas where the United States has potentially most influence—controlling the flow of guns and of bulk shipments of cash from north to south—its efforts, while still insufficient, are improving, he says.

Co-operation with the United States is necessary because Mexico's drug problem is ultimately America's too. According to the United Nations, the American drug market is more than ten times as big as the Mexican one, estimated at $10 billion. However, Mexico's market is expanding rapidly—up by 20% last year, according to Luis Carlos Trevino, Nuevo León's attorney-general. This means that the drug violence in Mexico, hitherto thought to be largely a result of turf wars between the country's two big drug cartels—the Sinaloa and Gulf cartels—is a fight not only over smuggling routes, but also over distribution territory within Mexico.

According to America's Drug Enforcement Administration, Mexican cartels are now the dominant force in wholesale cocaine distribution in the United States. The 2007 national drug-threat assessment reports that, since 2003, Mexico's methamphetamine production has also risen sharply, responding to crackdowns on meth laboratories in the United States. Mexico has also been cracking down on methamphetamines, slapping restrictions on the importation of pseudoephedrine, which is needed to make the drugs, and seizing a staggering $207m in cash from a pseudoephedrine smuggler in Mexico City in March.

The seizure—the world's largest cash haul ever—has been perhaps the greatest triumph of Mr Calderón's fight against organised crime. But there have been less spectacular victories, too, such as the detention of 98 policemen in Nuevo León on corruption charges over the past six weeks.

Political protectors

But the real problems of Mexico's law-enforcement apparatus are systemic. Federal police account for only 6% of the country's security personnel, notes Mr Medina Mora. And however grave the problems at federal level, they are worse at state level, and even more dire locally. Samuel González Ruiz, former head of the attorney-general's organised crime unit, says that, without electoral reform, any attempt to improve policing is doomed to failure. Elections, even at the local level, are so expensive that drug money inevitably finds a way in. Unless elections are made cheaper, drug lords will always find local protectors, he says.

According to the UN's World Drug Report, the wholesale price of cocaine in the United States in 2004 (the most recent year for which figures are available) was a third of what it was in 1990. Late last year, Mexico's Congress passed a law decriminalising possession of small amounts of drugs; 94% of drug cases in the country are for possession. But Vicente Fox, the outgoing president, vetoed the law under pressure from the United States. “The limits on Mexico's autonomy in these matters are not small,” Luis Astorga, an expert on crime at Mexico City's National Autonomous University, notes wryly.

Until America substantively changes its drug policy, Mexico's policymakers, capable though they may be, seem doomed to fight a losing battle. Government officials have grown fond of saying that things may have to get worse before they get better. But it is hard not to wonder whether they might not just be getting worse before they get still worse.

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Canada

No lessons learned

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Continuing “gaping holes” in Canada's security arrangements are revealed at an inquiry into the 1985 bombing of an Air India flight from Toronto

AP

Still mourning, 27 years later

IT WAS the worst act of aerial terrorism before the World Trade Centre attacks in 2001. On June 23rd 1985 an Air India flight from Toronto was blown up by Sikh extremists off southern Ireland, killing all 329 people on board, many of them Canadian Hindus. Twenty years later a lengthy trial in Canada ended in the acquittal of two Sikh nationalists, amid revelations of infighting between the police and the intelligence service and the mysterious destruction of key wiretap evidence. Now new evidence coming out of a public inquiry has put the spotlight on a sweeping—and continuing—failure inside Canada's security services.

Pressured by victims' families, Stephen Harper's Conservative minority government launched the inquiry last year to find out what had gone wrong. During the trial it emerged that both the Royal Canadian Mounted Police (RCMP) and the Canadian Security Intelligence Service (CSIS), charged with watching Sikh extremists in Canada, had been aware of threats to attack Air India. Militant Sikhs around the globe had vowed to avenge the Indian army's storming of the Golden Temple of Amritsar in pursuit of armed Sikh separatists in 1984. But Canada's security services had always denied having specific knowledge of an impending Air India attack.

Over the past few weeks several witnesses testified before John Major, the retired Supreme Court judge heading the Ottawa inquiry, about a litany of lapses in security, raising questions as to whether the tragedy could have been averted. James Bartleman, head of the foreign ministry's security and intelligence bureau at the time of the bombing and now lieutenant-governor of Ontario, stunned the hearing when he said he had passed on to the RCMP a raw intelligence report saying Air India would be the target of a Sikh attack on its next weekly flight from Canada. (The officer in question denied being told.)

A former federal government lawyer recalled a top CSIS officer at a terrorism conference in Los Angeles a week before the bombing talking of fears that Sikh extremists would bomb an Air India flight. An ex-prosecutor said that the same official told her that he had to leave early to deal with an “urgent” Sikh extremist problem. But nothing was apparently done to tighten security. A former airport cleaner reported that, on the day of the attack, he had roamed the Air India plane in Toronto freely, without seeing any security staff. A former Quebec police dog-handler said he and his bomb-sniffing dog were called to Montreal airport (the flight's last Canadian stop) too late to search the ill-fated aircraft; it left 15 minutes before he arrived.

All this might be ancient history but for the fact that not much appears to have changed. In March the Senate committee on national security and defence followed up its harsh 2003 review of airport security measures brought in after the 2001 attacks (“occasionally useful, but largely cosmetic”) with a new report concluding that the gaping security holes identified then “are still gaping holes more than four years later”. Passengers may be thoroughly checked, but behind-the-scenes security is slack or non-existent, with inconsistent screening of mail, cargo and baggage, and an inadequate police presence, it said.

Not only do these gaps urgently need to be filled, but a beefed-up RCMP force should assume overall responsibility for airport security, ending conflicts between agencies, the report said. According to one expert, however, the biggest obstacle to tighter security is not with the front-line (where police and intelligence services now co-operate well), but with the senior civil servants and politicians who have the power. “Like the Americans in Pearl Harbour, they know, intellectually, that terrorism is a threat, but

they don't actually believe it," said John Thompson, president of the Mackenzie Institute, a think-tank.

That worries many moderates among the 700,000 Canadians of Indian origin, already alarmed at signs of a Sikh extremist revival. In April a float in a Sikh parade in Surrey, a Vancouver suburb, included in a display of Sikh martyrs and saints a photograph of Talwinder Parmar, the assumed mastermind (now dead) of the Air India attack. Ujjal Dosanjh, a Vancouver Liberal member of Parliament and long outspoken critic of Sikh extremism (once suffering a beating for it), said he was dismayed that this glorification of a terrorist was passed over with so little concern by the police, the politicians and the general public. "We're busy fighting terrorism in Afghanistan, yet we ignore the reality in our own midst," he said. "It leads me to believe we really haven't learned many lessons from the Air India bombing."

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Argentina

Caught short

Jun 14th 2007 | BUENOS AIRES
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The government's populist energy policies are beginning to cause chaos

AP

Sorry, there's none here either

LAST year, as the southern hemisphere's winter stretched Argentina's vulnerable energy infrastructure to near breaking-point, Guillermo Moreno, the internal commerce minister, sought to assure the public that the fuel shortages would be only temporary. “It will rain diesel,” he vowed. Now, as the country faces its worst energy shortage in nearly 20 years, even a sprinkle of diesel would be a relief.

The end of May brought an unseasonably early cold snap, leading homes to turn up their heaters. This, coupled with the failure of a power plant, caused the collapse of both the power grid and the fuel supply system. In Buenos Aires, two of the wealthiest districts were plunged into darkness. Across Argentina, electricity supplies to industrial users were severely curtailed, causing temporary workers to be laid off. Service stations ran out of the compressed natural gas that powers many Argentine cars, including 90% of the capital's taxis. At least this meant fewer jams, the official news agency noted brightly.

Analysts have long predicted that the consequences of the government's populist energy policies would begin to be felt this winter. During Argentina's 2001-02 economic crisis, the government forcibly converted all energy tariffs from dollars to pesos, representing a cut of nearly two-thirds in their real value. Since then, only a handful of modest increases have been permitted, resulting in energy prices that are some 40% lower than those in neighbouring countries.

This has caused private-sector energy investment to grind to a virtual halt, while the economy has grown by nearly 9% a year. As a result, Argentina's proven gas reserves have fallen from more than 20 years' worth of production in the mid-1990s to less than ten years' worth today, and it can no longer produce enough electricity to cover exceptional demand.

In spite of this, the country has managed to avoid big fuel disruptions over the past few years, thanks to a series of warm winters and ample rains that have boosted its hydroelectric output. To cope with demand peaks, the government has also deployed an arsenal of short-term fixes—but at high cost. Suspending gas exports to Chile has strained trans-Andean relations; importing inefficient liquid fuels from Venezuela and electricity from Uruguay and Brazil is hugely expensive; and forced rationing has hurt industrial production and the overall investment climate. No significant increase in capacity is expected before the end of winter 2008.

The energy chaos could hardly have come at a worse time for the president, Néstor Kirchner, who is up for re-election this October (though his wife, a senator, is expected to run in his stead). He had already lost credibility with voters by authorising a controversial change in the government's method of measuring consumer prices, resulting in an official inflation rate well below private estimates of up to 15%. Now his government's insistence that its energy policies are working seems equally laughable. Moreover, the gas shortages have refocused public attention on a political bribery scandal involving the expansion of a gas pipeline in 2005, which has already led to the departure of three senior government officials.

Energy executives, consultants and economists broadly agree on the path Argentina needs to take. The price controls, which not only discourage investment but also push up demand, need to be replaced by a transparent system of controlled tariffs for low-income households and market prices for everyone else. The government also needs to convince investors that their rights and contracts will be respected before they plonk down the billions of dollars necessary to bring the country's energy system up to snuff. But

this would mean an end to the cheap gas and electricity that Argentina's middle class has come to consider an inalienable right—and in an election year, no less.

As temperatures returned to their mild late-autumn norms this week, the government was able to breathe a sigh of relief. But the respite may be short-lived. Winter in the southern hemisphere officially begins on June 21st.

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Terrorism in South-East Asia

Wounded but still dangerous

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From The Economist print edition

AFP

Indonesia has struck a blow against the Jemaah Islamiah terror group—but it remains a threat and its plans are a mystery

WHEN Jemaah Islamiah (JI), a South-East Asian Islamist group, bombed nightclubs on the Indonesian island of Bali in 2002, killing 202 people, it exposed the poor state of the country's anti-terrorist intelligence and policing. And the attack did not seem to lead to much improvement. The bombers struck again in 2003, at an American-run hotel in Jakarta, and in 2004 at the Australian embassy there. In 2005 they returned to Bali to attack three tourist restaurants. Of late, however, Indonesia's security forces seem to have gained the upper hand over JI.

No large-scale attacks have taken place since 2005. With the help of their Australian and American counterparts, Indonesia's national police have greatly improved their tracking of militants and have rounded up some of JI's top leaders. This culminated on June 13th with confirmation that they had arrested Abu Dujana, a JI leader whom police had recently begun to describe as their “most wanted”.

Mr Dujana is said to have fought in Afghanistan and hobnobbed with Osama bin Laden. He is believed to have taken charge of one of JI 's military wings, and control of its weapons and explosives, after the death of the group's chief bomb-maker, Azahari Husin, in a shoot-out with police in 2005. It has even been suggested that Mr Dujana is JI's *emir*, or paramount leader. Another leading figure, Noordin Muhammad Top, is still on the run. But the capture of Mr Dujana and several other terrorists in recent days follows the discovery of a huge arsenal of guns and bomb-making materials in March. It marks a “very significant” blow against JI, says Sidney Jones, in Jakarta for the International Crisis Group (ICG), a think-tank.

Indonesia's arrests came shortly after Singapore revealed that it was detaining four JI members, arrested between last November and April, and freeing five detained earlier who had “responded positively to rehabilitation”. However, the Philippines' army admitted last weekend that another JI leader, known as Dulmatin, suspected of involvement in the 2002 Bali bombs, had again escaped its clutches. The army believes he is hiding in the Tawi-Tawi Islands, off Borneo. He and other fugitives in the southern Philippines are suspected of teaching local Islamist militants how to make bombs.

Indonesia's recent policing successes are a tribute to two new units set up after the 2002 bombings. One, which has stayed out of the spotlight, is an intelligence-gathering task-force. The other, Detachment 88, is a high-profile anti-terrorist squad, trained by American and Australian federal police in making arrests and gathering forensic evidence. Since their formation Indonesia's terror-fighting capabilities have “come on in leaps and bounds”, says Nigel Inkster, an analyst at the International Institute for Strategic Studies in

London and until recently the deputy head of the British external-intelligence service, MI6. Indonesia's army and its domestic-intelligence agency, BIN, are not much good at anti-terrorism work, says Mr Inkster, so until the new police units were formed, foreign agencies had no competent Indonesian counterparts.

Despite Detachment 88's successes, Ms Jones says the unit is too small. When it raids terrorist bases it must rely on help from *Brimob*, a poorly trained paramilitary-police unit. In January, for example, the two forces combined to storm a JI hideout on Sulawesi, an Indonesian island plagued by conflict between Muslims and Christians. Fifteen suspected militants and one policeman died. An ICG investigation found that the heavy casualties made local Muslims see the extremists as victims. Such incidents are counter-productive, encouraging civilians to shelter JI militants.

Another worry is lenient sentencing by Indonesia's courts. JI's spiritual leader, Abu Bakar Basyir, was let out of jail after serving 26 months of a 30-month sentence for his alleged involvement in the 2002 bombings. The courts later overturned his conviction altogether. The country's prisons, riddled with corruption and incompetence, may serve as recruiting and training centres for JI. Bringing terrorism convicts together in a specially built new jail, as is planned, may simply make the job of JI's “tutors” easier.

For all the success in tracking down JI's military leaders, the group's current plans and the extent of its network remain something of a mystery. Unlike many terrorist groups worldwide, JI lacks an overground political wing to elaborate its demands. A study by the ICG last month reckoned the group may still have around 900 members. But the scale of its recruitment in universities and Islamic boarding schools is unclear. There are signs that, as its bomb-planting and fund-raising activities are more successfully curbed, the group is simply turning to cheaper and easier forms of terrorism, such as assassinations.

Along with the arrests and the seizure of weapons in March, Indonesian police found a handwritten diagram showing that JI operatives on Java, Indonesia's most populous island, had been reorganised into a *sariyah* (possibly meaning “platoon”), implying that this was part of a new military structure covering South-East Asia. But there have recently been few signs of activity outside the group' s Indonesian heartland. Last week a general in Thailand's military-backed government implied that Cambodian Muslims linked to JI were somehow involved in the insurgency in Thailand's mainly Muslim southern provinces. But he backtracked after the Cambodian government furiously denounced his comments.

There has been little recent evidence that JI or, for that matter, al-Qaeda, has a hand in the Thai south's rising violence. But it is just the sort of strife-torn place, full of alienated, angry Muslims, where those seeking to organise *jihad* find fertile ground. Police have pruned JI's top ranks. But its roots may still be spreading.

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Delhi's beggars

Street life

Jun 14th 2007 | DELHI
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Ignore the human tragedy; fix the urban nuisance

Reuters

The one on top gets more attention

FILTHY children and fingerless lepers, tapping on car windows and pleading for "*paisa*, *khana*" (cash, food), hang around every busy traffic junction and market in Delhi. Begging in Delhi is illegal though few are locked up. But if the authorities have their way, it will soon be wiped out, as part of a big clean-up before the capital hosts the Commonwealth Games in 2010.

Plans to obliterate other familiar features of Delhi ahead of the games are controversial. A ban on some 300,000 stalls selling freshly cooked snacks has enraged well-off foodies and the poor alike. Animal-rights activists protested when hundreds of unruly monkeys were rounded up and shut in cages. A new scheme to herd the city's stray cows into a vast dairy complex will doubtless anger many cow-revering Hindus.

A radical plan to corral Delhi's beggars, in contrast, has provoked little reaction. After an order from the High Court that begging be stamped out, a report commissioned by Delhi's Department for Social Welfare recommends that beggars be rounded up by a special police squad and placed in beggars' homes, which resemble jails more than hostels. The report, by academics at the University of Delhi, also wants the public to be educated about the "evils of alms-giving", which "promotes parasites".

The report entailed the fullest survey ever conducted of Delhi's beggars. It offers revealing insights into their earning potential. Of the 58,570 beggars counted, 5,003 were interviewed in depth. Nearly half the adults earned between 50 and 100 rupees ($1.20-2.40) a day, not much less than the income of many daily wage labourers. About 3% said they earned 100 to 500 rupees a day.

Tales of high-earning beggars have often been used in India to justify intolerance. But the survey also hints at the underlying injustices. One-third of adult beggars were disabled; 88% said they had no skills; almost all were migrants from other parts of India—mostly the poor northern states of Bihar and Uttar Pradesh—and had taken up begging because they could not find work.

More than one-third were under the age of 18, like Mohammed Alam, a ten-year-old orphan, who left Bihar with his aunt and uncle a month ago. On arriving in Delhi, Mohammed's aunt found a job ironing clothes; the boy, whose polio has left him with a deformed leg and a limp, works a busy traffic intersection for five hours at a stretch, earning between 10 and 20 rupees. The rest of the time he spends at home ("in that park over there"). He has not been to school since he was seven, he says, his small face a complete blank.

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Chinese cities

A museum boom

Jun 14th 2007 | BEIJING
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But they are not going up as fast as history is being knocked down

CITIES and towns across China are rushing to build museums. These are not the dour edifices of the Mao era that until recent years were the dreary repositories of the nation's historical treasures. Governments, and even some individuals, are lavishing huge sums on vast and exotic new buildings. Sadly, this does not imply a new-found respect for history.

In 1977, a year after Chairman Mao's death, there were only 300-odd museums. Most of them were little more than displays of Communist Party propaganda. Within a decade, say official press reports, the number had grown to nearly 830. By the turn of the century there were more than 2,000 of them. By 2015, officials estimate, there will be around 3,000.

Beijing alone now has at least 131 museums, up from 96 a decade ago. In January the Stalinist-looking National Museum overlooking Tiananmen Square was closed down for a three-year makeover costing $330m. Last year saw the formal opening of the city's new Capital Museum, which cost more than $160m. Shanghai is fast catching up. It plans to have 150 museums by 2010, up from 106.

Local governments, caught up in what the Chinese press calls a “museum fever”, are vying to outdo one other with architectural wonders. Most are paid for out of government budgets. But near the city of Chengdu, in south-western China, a local businessman, Fan Jianchuan, opened a 33-hectare (82-acre) museum complex two years ago. Its exhibits are boldly revisionist, highlighting the contributions made by the Kuomintang, the party's enemy, in the anti-Japanese war of the 1930s and 40s.

Officials worry that the museum boom is getting out of control. The country has a dearth of people qualified to run them. Local governments are often unwilling to subsidise running costs, forcing museums to rely on ticket sales. Prices are often too high for many ordinary townspeople.

The museum fad is a refreshing contrast to the culture-destroying ethos of Mao's rule. But the penchant for vandalism still lurks. This week Qiu Baixing, a deputy minister of construction, said historical architecture and cultural sites were being “devastated” by rapid urban construction. He even compared this to the destruction wrought by Mao's Great Leap Forward and Cultural Revolution. The museums may look splendid, but, around them, history is being pulverised.

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Afghanistan's press

Thriving yet threatened

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From The Economist print edition

Legal and illegal attacks on Afghanistan's press

AFP

Mourning Zakia; burying freedom?

RADIO WATANDA is broadcast from a basement in a suburb of Kabul. It has no presenters; just music and a jingle that counts out a phone number. When Watanda went on air in 2004, listeners were baffled. Those who rang had their confused calls broadcast. Those who asked for songs found their requests ignored. But the first person to realise he could use the station as a platform rang in to harangue the authorities about the capital's crippling electricity shortage. Thousands followed, expressing any view they wished.

Three years later, unstructured on-air debates have become Afghanistan's talk radio. A caller recently complained that the dress of Kabuli women was too revealing. For days callers, including many anonymous women, talked of little else. “In Afghanistan the media has always been controlled by the literate,” says Mirwais Social, the station's youthful manager. “On Watanda there is no presenter to intimidate people. We have removed everything to prevent them talking.”

Freedom of expression is intoxicating in a conservative country where the government and religious establishment have long kept a tight rein and where the Taliban regime banned music and television. Since its overthrow in 2001 more than 60 FM radio stations, hundreds of magazines and newspapers and eight independent television channels have been founded. Young Kabulis devour satellite television and the unrestricted internet. The media, say many Western commentators, have been one of Afghanistan's few clear-cut success stories of the past six years.

But many government members think the freedoms have gone too far. They argue that journalists are often poorly trained, biased and prone to defame institutions and individuals. The government of Hamid Karzai, Afghanistan's president, has supported a free press, but has been hurt by press criticism at a time when it wants to counter Taliban propaganda.

Episodes of press intimidation and harassment have been on the rise. On April 17th, staff at Tolo TV, the country's leading independent broadcaster, were beaten by police. The attorney-general, Abdul Jabar Sabet, had ordered their arrest because he objected to the editing of an interview he had given. Tolo hit back by airing footage of the raid. Then this month a prominent female journalist, Zakia Zaki, was murdered by unknown gunmen. Her murder, following the Taliban's beheading of two pressmen in April, has rattled nerves.

No less worrying to local journalists and Western governments is debate over a new media law. Freedom of speech is enshrined in the constitution and the existing media law is the most liberal in the region. But the lower house of parliament has just finished discussing a law that includes ill-defined bans on

“discussion that would ridicule, offend or defame an individual” and, more vaguely still, on anything that has an impact on “the manners and psychology of people, especially children”. Even so, it is less the wording of the law than the spirit in which it will be interpreted that worries Afghan journalists. Saad Mohseni, Tolo TV's founder, is one who argues that the press can expect little protection from harassment by government officials and other bigwigs.

The new law still has to win approval in the upper house of parliament. But there it is not likely to become more liberal. A bill put forward by the upper house's National Reconciliation Commission suggests censoring “trite movies and those TV programmes that are contrary to Afghan beliefs...and harm the feelings of our people”. It proposes an increase in religious programming instead.

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Hong Kong's schools

The $1m question

Jun 14th 2007 | HONG KONG
From The Economist print edition

What is the price of a good education?

Get article background

AMONG the most commercial of cities, Hong Kong follows many markets; but none more intently than the trade in debentures tied to admissions to the city's international primary and secondary schools. These non-interest-bearing bonds are typically issued to pay for construction or other costs. Bought by parents anxious to do the best by their children, or by employers anxious to attract the best staff, they are then traded at prices set by the city's volatile economic fluctuations.

Recently, slots in international schools have become precious. The economy is booming in China's tailwind, attracting well-paid expatriates. Prosperous local residents, meanwhile, are deserting local schools because of what is seen as deterioration in English-language teaching since the reversion to Chinese sovereignty in 1997. It is not just the very rich who are worried: early this month a small group of not very well-off South Asian residents marched through central Hong Kong, demanding more schooling in English, arguing their children were suffering from having to attend classes conducted in Chinese.

Demand is high, supply is limited, and the results, at the top end of the market, are predictable: soaring prices. In 2004, the price of a debenture at the Chinese International School, possibly the most sought-after institution, sold for HK$600,000 ($77,000). On June 9th the *South China Morning Post* splashed on its front page a report that a family had paid HK $1m for a debenture, and then entered its child in the school's first grade. Similar, if less dramatic, price increases were reported at other international schools.

The schools all treat the debentures differently. The Chinese International School stresses that theirs does not guarantee a school place. Applicants sit a merit-based test, and some debenture-holders are rejected and some non-holders accepted. Still, holders must feel their children gain some advantage. Hong Kong International School, popular among Americans, gives debenture-holders more rights. If an applicant meets the school's standards, a debenture places him at the head of the queue. Most schools lie somewhere in between these two approaches.

All the international schools have lengthy waiting lists for all ages. So companies scoop up debentures for their staff—some expatriates are refusing jobs in Hong Kong because they cannot find schools for their children. Resale rights exist, with schools in some cases sharing the profits. Alternatively, two years ago Hong Kong International School bought back all its debentures and then reissued them at a higher price—much as a company might when business is good.

Even so, the debenture systems are opaque—the ratio between debenture-holders and accepted students is unknown. Schools are understandably sensitive about acknowledging the embarrassing tie between money and admittance. Raising money for education is a challenge everywhere and Hong Kong's system compares favourably with, say, British private schools, where prices are stratospheric, or American ones, where parents' “contributions” often can carry the same benefits as debentures, but have no market-signalling value. Hong Kong's school-debenture prices are sending two messages: there is a market for good education; and some people have the money to pay for it.

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Nepal

Something still rotten

Jun 14th 2007 | KATHMANDU
From The Economist print edition

Corruption, nepotism and impunity threaten the peace process

IN SEPTEMBER last year a warrant was issued for the arrest of Sitaram Prasain, who was accused of stealing $4.3m from his own bank. This plunged the partly state-owned outfit, set up to lend to small businesses, into insolvency. Yet somehow the police could not find him. He seemed invisible, even when many of the country's top politicians attended his son's lavish wedding. For many Nepalis, this was all too typical of a system where the rich and privileged are above the law.

When the Young Communist League, a squad of thugs run by Nepal's Maoists, kidnapped Mr Prasain this month and paraded him in front of the press before handing him to the police, there was an almighty row. Girija Koirala, the irate prime minister, called them the “Young Criminal League”. The Maoist leader, known as Prachanda, retorted that it was Mr Koirala who consorted with criminals. Ashish Thapa, of Transparency International, an anti-corruption watchdog, points out that Mr Prasain had given generously to various political parties.

The Maoists, whose ten-year insurgency ended in a messy truce last year, are now partners in an interim government, while the chaotic country pursues a permanent peace. Yet the Prasain affair suggests that peace needs at least some integrity in public life. Aside from short-lived, politically motivated episodes, no one can recall anybody important in Nepal ever being punished for anything.

The Supreme Court itself is bound up in the culture of impunity. Earlier this year an unsuccessful litigant released recordings of his efforts to win a property dispute through bribery. No action has been taken. Yet the judiciary has a vital role in the peace process, both in hearing important constitutional cases and in a planned “truth and reconciliation” process over the many human-rights abuses committed by both sides to the conflict.

The Maoists, while posing as the party of justice, also look shady. There are many reports of their involvement in illegal logging. (A Maoist, as it happens, holds the cabinet portfolio covering forestry, traditionally seen as a lucrative sinecure.) And there has never been a proper accounting for millions of dollars in finance-ministry cheques payable to Krishna Mahara, a Maoist leader. The money was intended to pay for disarming and demobilising the Maoists' fighters. Transparency's Mr Thapa thinks the Maoists in fact have more ways—legal and otherwise—to raise revenue than any other party, and have amassed large sums of money.

The police, too, have a big role to play in establishing law and order before and during elections due this autumn. Yet listening to a group of mid-ranking officers discussing their hopes for juicy job postings does not inspire confidence. The luckiest among them might end up with a casino on their beat, with attendant opportunities for kickbacks. Since Mr Koirala, from the Congress Party, became prime minister last year many officers with Congress links have been promoted.

“It goes to the feudal character of our society,” says Devendra Panday, a former finance minister who is now a campaigner for peace and democracy. “In the patron-client system there is no incentive to clamp down on corruption.” Nepotism and party bias in appointments undermine institutions. “The country is full of incompetent people as well as corrupt ones.”

Cynicism about the way things work is all-pervasive—and extends to foreign aid. International donors are big providers of good jobs for the local elite. Many able young people in Kathmandu, who lack the connections, have concluded that only the upper classes need apply. In the unhappy villages, where most people live and development is yet to come, peasants are quick to assume, rightly or wrongly, that money intended for them has been stolen higher up the system. Others contend that it is simply wasted by people too rich to understand their problems. Such resentments fuelled the Maoists' “people's war”. Yet the system that breeds them shows no sign of changing.

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The Palestinians

War between brothers

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From The Economist print edition

AP

The Palestinians' two main groups are on the verge of a struggle that could split the two parts of a putative Palestinian state in half

BY THE end of this week, the Islamists of Hamas will have either destroyed the secular-minded Fatah in the Gaza Strip or shown that they can. The relative quiet after a deadly burst of violence between the rival Palestinian parties in May was broken by a series of tit-for-tat killings that quickly got out of hand. After troops from the presidential guard of Fatah's Mahmoud Abbas, the Palestinian president, rocketed the house of Hamas's Ismail Haniyeh, the prime minister, the Islamist party launched a full-scale attack. As *The Economist* went to press, Hamas troops had taken control of most of the Gaza Strip and had chased Fatah forces out of their bases, while several top Fatah commanders had either fled Gaza or had been killed.

Fatah arrested Hamas men in the West Bank and suspended its participation in the Palestinian Authority (PA) coalition government, which the two parties formed in March in an attempt to stop such fighting, and threatened to pull out altogether. But Fatah has little to bargain with. Hamas has already shown that its fighters, though less numerous, are better armed, trained and disciplined. In contrast, Fatah field commanders have been complaining loudly about their lack of equipment and leadership. Several of Fatah's top people in Gaza have been out of the strip for weeks.

The frustrated head of an Egyptian mediating team this week called on ordinary Gazans to take to the streets in protest against the violence, which has included kneecappings, summary executions and throwing handcuffed captives off tall buildings. Some protesters did sally out; one was shot dead.

They seem powerless in the face of a conflict that has been building since Hamas ousted Fatah from the PA in last year's election. From the start, Fatah tried to prevent Hamas from getting full control of the PA security services, which are a cornerstone of political power and a job scheme for unemployed militants, and which had become bloated with Fatah loyalists during the secular party's long and corrupt rule. Hamas countered by adding a tough, disciplined “Executive Force” of its own loyalists to the PA roster in Gaza, where it is much stronger than in the West Bank.

Fatah then won backing from the United States to turn the presidential guard into an elite force to counter that of Hamas. Under the guise of strengthening Mr Abbas as a moderate (unlike Hamas, which still refuses to accept Israel's right to exist as a Jewish state), America has provided $59m for training and supplying the presidential guard with non-lethal equipment, which Israel has let enter Gaza.

Israel has also let through at least one shipment of weapons from other Arab countries. Fatah officials have asked for more, but to no avail. Recently the Americans have been pressing Mr Abbas to adopt a

new “action plan” to beef up his office, clean up Fatah, and boost training for the security services under his control, all with a view to giving him enough clout to call new elections later in the year.

Not surprisingly, Hamas sees Western support for Mr Abbas's troops, along with the now 15-month-old Western boycott of the PA, as part of a conspiracy to force it out of power. The official American line is that it is strengthening the presidential guard in order to “build law and order in Gaza” and to secure the border crossings where goods for the strip's 1.4m residents enter and leave. But occasionally the elite force has attacked Hamas positions, with notable success, and mid-level Fatah officials want more of that. “The only way Fatah can win, or at least get out with some self-esteem, is if the political leadership takes a decision to engage the presidential guards in this battle,” says Nasser Jumaa, a Fatah legislator from the West Bank town of Nablus.

Within the Israeli establishment, opinion is split on whether to let in more weapons. But Gaza is already awash with arms smuggled in through tunnels under the Egypt-Gaza border; any meant for Fatah could easily end up in Hamas's hands. This week Ehud Olmert, Israel's prime minister, took up an earlier suggestion by his foreign minister, Tzipi Livni, for an international force to patrol the Egypt-Gaza border strip to prevent weapons-smuggling. Egypt has, up to now, said no.

Messrs Abbas and Haniyeh are trying to pull things back from the brink and to negotiate. But some predict a total split between a “Hamastan” in Gaza and a West Bank ruled by Fatah. No Israeli leader—including Ehud Barak, the former prime minister, who this week won the Labour party's primary election and could return to power next year—will feel any pressure to talk peace with a Palestinian leadership so definitively divided.

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Egypt

Another flawed election

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Democracy in Egypt has stalled

YOU cannot fault the Muslim Brotherhood for lack of ingenuity. When government supporters ripped down their election posters, they hoisted more on helium balloons. Told that their slogan “Islam is the Solution” was illegal, they changed it to “Reform is the Solution”. Even so, Egypt's largest opposition group, which remains officially banned despite its members holding 88 seats in the lower house of parliament, failed to carry a single district in this week's election for the upper house, the Shura Council.

Their failure was understandable. A campaign of arrests that began in December has put some 800 Brothers behind bars. In March, the government forced through constitutional changes, calling them reforms, that outlawed religious slogans and removed judicial supervision of polling. Under varied pretexts, half of the Brotherhood's candidates were barred from running, leaving just 19 to contest the 88 places at stake; another 88 in the 264-seat council will be filled by later voting; the president will appoint 88 more.

AP

Not easy for a sister to vote for a Brother

Then, in what has become a tradition on Egyptian voting days, riot police surrounded polling stations in districts where Brotherhood candidates looked likely to win. Some stations were simply sealed off, while in others the security cordon opened to let in busloads of government supporters. Small wonder that an official Brotherhood statement condemned the elections as witnessing a magnitude of fraud unprecedented in Egyptian history.

Because Egypt's peculiar form of democracy usually produces a very low voter turnout and distorted results, it is hard to say how many Egyptians share the Brothers' outrage. The two main legal opposition parties, both far weaker than the Brotherhood, boycotted the voting anyway. The prevailing attitude among ordinary citizens was mild puzzlement at why President Hosni Mubarak and his National Democratic Party, which have ruled together for 26 years, should bother to persist in going through democratic motions.

Such deeply ingrained scepticism did wane, briefly, a few years ago. Then, a mix of generational impatience for change and foreign (especially American) hectoring, prompted a flurry of high-blown official rhetoric about the need for reform. Instead of extending his term, as before, by a shoo-in referendum, President Mubarak let challengers run against him in 2005. A general election that year, though marred by shenanigans, brought big gains for the Brotherhood. A grass-roots reform movement, which called itself simply Kefaya (Enough!), grabbed media attention with serial public protests against authoritarian rule, even as trade unions began shaking off decades of encroaching state control.

But much of that momentum has waned. Despite winning just 7% of votes, Ayman Nour, the runner-up to Mr Mubarak for the presidency, soon landed in jail, where he remains. Internal schism, unrelenting police pressure and failure to move beyond street protests all tarnish Kefaya's sheen. Boxed in by police controls and distrusted by secular Egyptians and the large Coptic Christian minority, the Muslim Brotherhood failed to win new converts.

The Bush administration, chastened by its dismal failure in Iraq and by the success of Islamist movements such as Hamas in the kind of free elections that America had so loudly promoted, meanwhile began to cool towards its “forward strategy of freedom”. When Mr Bush recently dared mention Mr Nour, Egyptian officials riposted with a blistering demand that he mind his own business. Yet Mr Mubarak may not yet be out of the woods. This week, a committee in the American Congress voted to make its military

aid to Egypt of $200m conditional on human-rights reform. The Egyptian army, which has underpinned the country's rulers since its officers overthrew King Farouk in 1952, will not be happy.

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Sudan

The UN may send troops, eventually

Jun 14th 2007 | NAIROBI
From The Economist print edition

It is too early to celebrate a new peacekeeping deal for Darfur

FINALLY, after almost a year of negotiations, Sudan's government has agreed to let a “hybrid” African Union (AU) and UN peacekeeping force be sent to its ruined western region of Darfur. The deal worked out at the AU's headquarters in Addis Ababa follows an agreement earlier in the year to let in a “heavy package” of armoured vehicles and helicopters. The new force will probably comprise 17,600 troops, including a rapid-reaction force, plus a further 3,000 police. Given that up to 300,000 people have already been killed in Darfur and another 2.5m displaced, this is hopeful.

But, as ever, Sudan's government, which has long denounced any UN deployment in Darfur as neo-colonial, may well try to weaken the deal. The hybrid force, it says, will be an AU mission, with limited backing from the UN. Since Sudan is a powerful member of the AU, it would be able to exercise a degree of control over any AU force on the ground, as it does over the AU's floundering 7,000 soldiers and police already there.

America and others, however, see the new force as essentially a UN one dressed up in the green helmets of the AU. The Sudanese delegation in Addis Ababa seemed to suggest that Sudan would accept non-African troops in Darfur, if there were not enough African troops on offer. But at the same time Sudan's president, Omar al-Bashir, at a meeting in his capital, Khartoum, with France's new foreign minister, Bernard Kouchner, insisted that only Africans should be deployed. That set off alarm bells in America, which is worried that Mr Bashir will use the issue to delay deployment. The AU is presently unable to fulfil a pledge to provide a mere 6,000 troops to keep the peace in Somalia.

In any event, no extra troops will be deployed before next spring. Some people think Sudan may have signed the deal precisely because it knows it will be ineffectual. Though the proposed new force is due to include eight attack-helicopters, Mr Bashir knows there is still no enthusiasm for enforcing a no-fly zone over Darfur. So, for the time being, the government-backed *janjaweed* militia may continue to attack Darfuri rebels and civilians alike, albeit more warily, and the splintered rebel groups are likely to continue fighting their local battles.

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Iran

Romance versus reality

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Iran's populist president is finding it hard to stay popular

Get article background

MAHMOUD AHMADINEJAD won presidential office promising to give Iran's oil money back to the people. But he is finding the demands of populism hard to reconcile with economic reality. His government has recently been wobbling over implementing two of its biggest economic decisions: to bring in petrol rationing and to cut interest rates.

It has dithered over rationing for more than a year, with one promised date after another passing, and no clear announcement of how or when it will happen. Rationing was finally introduced last week for government cars, but the authorities are no closer to deciding when to cap consumption by private motorists. Few Iranians will be surprised if implementing the policy is delayed for several more months.

Last year Iran spent $13 billion-plus on subsidising petrol. Though it has the world's second-largest oil reserves, the country is so short of refining capacity that it spends a lot of cash on importing fuel. Local economists complain that the subsidy tips the trade balance the wrong way, wantonly increases state spending, encourages people to waste fuel or smuggle it abroad and is regressive because the poor do not own cars.

Motorists have now been given smart cards, which they have to use when buying petrol. Once rationing is introduced these will be used to measure a monthly allowance of subsidised fuel and to charge more for excess consumption. The government has blamed the delays on technical problems with these cards. In fact, neither Mr Ahmadinejad nor his parliament wants to take responsibility for unpopular decisions, and has not yet decided how much fuel to let people have or what rates higher consumption should incur.

Some politicians even tried to dismiss the idea of public rationing altogether, saying that last month's tiny increase in the price of a litre of petrol (by $0.02) and that smart cards monitoring national consumption will solve the problem without rationing. They seem unlikely to get their way, but there may be more rows before the policy is implemented.

The government has also made a hash of monetary policy. Mr Ahmadinejad has called for a cut in interest rates to 12%. Lending rates are capped at 14% for state banks and 17% for private banks. The money and credit council, which is meant to set rates, said in April that they should not be cut this year because of high inflation and the risk of hurting private banks.

Long-term cuts are meant to help create jobs by encouraging investment in business. But with high inflation and the threat of more UN sanctions hanging over Iran's economy, most borrowers are likely to pump cash into the booming property market instead. Even if Mr Ahmadinejad decides not to insist on the cut, his intervention has further worried businessmen who think his indifference to the plight of private banks shows he is hostile to private enterprise as a whole. This week, in an unusually bold move, 50 economists castigated the president for what they deemed to be his dismal economic policies.

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Africa and the “war on terror”

Policing the undergoverned spaces

Jun 14th 2007 | NAIROBI, NOUAKCHOTT AND TIMBUKTU
From The Economist print edition

The Americans are intensifying their hunt for al-Qaeda in the Sahara and beyond

FAR from the killing fields of Iraq or Afghanistan, Alher Ag Metky, an indigo-robed Tuareg commander in Timbuktu, is meant to be fighting on another front in America's war on terror. His American-trained men set off from the legendary town on the southern fringe of the Sahara desert to patrol hundreds of kilometres of Mali's share of the empty vastness, trying to show that they, and not the terrorists, armed bandits and other assorted ne'er-do-wells control the sands.

Mr Ag Metky's mission is a tiny part of what the Americans call the Trans-Sahara Counter-Terrorism Partnership. Under this initiative small teams of American special forces train the local soldiers of Chad, Mali, Mauritania and Niger, and work with the armies of Algeria, Morocco, Nigeria, Senegal and Tunisia, to control what they call the “undergoverned” spaces of the Sahara: vast swathes of desert where people have been in various states of rebellion for years and which more recently have been visited by radical Islamist clerics and new terrorist groups.

The Americans particularly fear that if terrorists manage to consolidate bases in the Sahel, the southern fringe of the Sahara desert that extends from Mauritania in the west to Sudan in the east, they may be able to penetrate into the soft underbelly of Europe via Morocco and Algeria. That was the route taken in 2004 by the perpetrators of the train-bombings in Madrid, most of them Moroccan, when nearly 200 people were killed.

The Horn is getting sharper

In east Africa, the United States is already intimately involved in a full-blown offensive against al-Qaeda in Somalia. America helped Ethiopia invade Somalia at the end of last year to topple the terrorists' supposed protectors, the Union of Islamic Courts. The Americans have been battling al-Qaeda in the region ever since it blew up the American embassies in Kenya and Tanzania in 1998, killing at least 225 people. Now their armed forces are becoming a lot more involved in the rest of Africa. A new American command for Africa, known as AFRICOM, will for the first time co-ordinate all the superpower's various military deployments on the continent under a unified command.

This, says General William Ward, one of the men in charge of setting up the new command, is “a recognition of the increasing and growing importance of Africa”—mainly due to terrorists and oil. The aim, he says, is to bring stability to the poor, fragile Muslim countries along the Saharan belt that might

otherwise collapse and create havens for terrorists of the sort Afghanistan became under the Taliban.

American concern about terrorism in Africa is sharpened by a growing need for African oil. Nigeria is the continent's biggest exporter of oil to America. The fact that half of its population of about 140m is Muslim worries American counter-terrorist experts. Nigeria already faces an insurgency—not, so far, connected to Muslim grievances—in its oil-rich Delta region.

Further south down the Atlantic coast, Angola is another country whose oil has led to a deepening American involvement. The United States recognised Angola only in 1993, after cold-shouldering its Russian-backed government for the previous 20 years during the Cold War. Now it is building one of its largest embassies in Africa there and pouring in aid. Angola is already Africa's second-biggest exporter of oil, and could overtake Nigeria.

American officials insist that AFRICOM will not be all about building bases and airstrips but will co-operate with development agencies, NGOs and diplomats to win African hearts and minds and so deny terrorists havens from which to operate. Rear Admiral William McRaven, head of the special forces now operating in the Sahara, says his men are much more likely to drill boreholes and build houses than to shoot at anyone. “I don't want a fragile state collapsing any more than Greenpeace or USAID does,” he says.

Part of the appeal of a preventive institution-building strategy such as this is that it costs far less than having to intervene with military force in places, such as Somalia, where weak states have already failed. Chastened by the difficulties American forces have encountered after their interventions in Afghanistan, Iraq and Somalia, AFRICOM says it wants to learn from past mistakes and do things better.

It all makes eminent sense. But is the threat of terrorism in Africa big enough to justify the American investment?

One genuine threat is posed by a group now calling itself al-Qaeda in the Islamic Maghreb—AQIM in American military shorthand. It was formed last year after Algeria's Salafist Group for Preaching and Combat, better known by its French initials GSPC, joined up with local units of al-Qaeda. The GSPC itself emerged out of Algeria's civil war in the 1990s, in which some 200,000 died. Its most recent attack, a car bombing in Algiers in April, killed at least 30 people. The CIA thinks that AQIM may have about 100-150 operatives, who could be “force multipliers”, meaning that they could train many more jihadists in the mobile training camps the Americans claim to have identified in northern Mali's deserts near the Algerian border.

The Americans worry that AQIM may link up with murkier groups, such as the Black Taliban of northern Nigeria. The group was blamed for an attack in April in the city of Kano. This killed scores of people. But the Black Taliban's guilt has been hard to confirm. It is equally hard to confirm claims that, on top of the Algerian and Moroccan groups, there exists a growing terrorist network elsewhere in the Sahel, and perhaps even a line of communication and supply reaching right across to Somalia and even on to Iraq.

In general, West Africa has practised a tolerant and peaceful Islam. But Muslim fundamentalists under the banner of Salafism are certainly becoming more active in the region. One Islamist movement that may be gaining ground is Tablighi Jamaat. Though it does not overtly call for involvement in politics, its creed, spread mainly by Pakistanis, has inspired a number of terrorists, including Richard Reid, the British convert who tried to blow up an American aircraft in 2001 with an explosive-packed shoe, and John Walker Lindh, the “American Taliban” caught by American forces in Afghanistan in 2001 and sentenced to 20 years for terrorism a year later.

In Africa, the superpower's struggle for hearts and minds may be easier than in the Middle East. Africans still think of America as a foe of colonialism. A growing number, especially in English-speaking countries, share the evangelical Protestantism that is popular in America. And in African eyes the American dream has lately been given a new fillip by the presidential candidacy of Barack Obama, the American son of a Muslim from Kenya.

On top of this, Africans know that the superpower's military investment will bring money and jobs. The budget of the Trans-Sahara Counter-Terrorism Partnership for 2007 is about $115m, while non-military assistance increased by about 60% last year as well. Unimaginable in many parts of the world, there is keen competition among African countries to host AFRICOM's new headquarters.

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South Africa

Screaming to be heard

Jun 14th 2007 | JOHANNESBURG
From The Economist print edition

Teachers, nurses and doctors demand a larger share of the country's prosperity

Get article background

BEAUTY, a 31-year-old teacher living in Soweto, Johannesburg's main black township, is struggling to make ends meet. As a substitute teacher in a state school during the day, and teaching adults at night, she earns about 4,000 rand ($553) a month and supports ten relatives. The school principal, who has been teaching for over 26 years, is only a bit better off, with her monthly 6,500 rand; her deputy, a single mother in her 50s, lives with her parents, unable to afford a place of her own. Nurses and doctors, discouraged by low pay and difficult working conditions, have left the country's hospitals in droves, leaving too many vacancies unfilled. So on June 1st, a few weeks before the ruling African National Congress party is due to host a policy conference, public-sector workers launched one of the largest strikes in the country's recent history.

They want a 12% salary increase. The government says that is unaffordable and started by offering less than 6%, plus a revised salary structure and better benefits. The gap has narrowed but no agreement has been reached. Stun grenades and rubber bullets have been used to disperse strikers blocking access to hospitals and intimidating people who wanted to carry on working. More controversially, some of those strikers who are considered essential workers and are not supposed to strike at all have been sacked. This week trade unions in other sectors downed tools for a day in solidarity.

Reuters

They want more of the cake

Many South Africans sympathise with the strikers, mainly because the economy seems to be doing better than ever. It has grown by about 5% a year over the past four years. The stock exchange has been giving handsome returns and the government is running a budget surplus. The booming parts of the economy, such as construction and retail, have contributed to the creation of over half a million jobs in the past year, more than ever before.

But trade unions say that many South Africans do not benefit from this prosperity, and that big business gets a disproportionate share of the cake. Many new jobs are casual and a third to half of the population is still deemed poor. The official unemployment rate, slowly dipping from its peak of the early 2000s, is still 25%; using a broader definition, it is closer to 40%.

High wage increases, on the other hand, could endanger the country's economic gains. Inflation has been picking up, mainly due to higher oil and food prices. For the first time in almost four years, it went above the 3-6% target band in April, and the central bank put up interest rates on June 7th.

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Poland and the European Union

The square root or death

Jun 14th 2007 | WARSAW
From The Economist print edition

The Germans fret that Poland may block a summit accord

Get article background

EUROPEAN summits are seldom done deals, but next week's is especially tough. Even a slimmed-down treaty needs unanimous agreement. And the country that may stop that is Poland.

The Poles insist they are willing to compromise. They seem ready to drop attempts to add a reference to the Christian God. But they say accepting the "double majority" system of national voting written into the constitutional treaty three years ago would be a capitulation, because it gives Germany far more weight and Poland far less than the two have now. To soften the blow, the Poles now want to fix voting rights not according to populations, but according to the square root of those populations. The president and prime minister, the twin brothers Lech and Jaroslaw Kaczynski, say their plan "is worth dying for".

EPA

A twin nightmare for Merkel

The Poles are cross that the German presidency of the EU refuses even to permit discussion of their alternative. This means that "some proposals are considered to be better and some worse", complains Pawel Zalewski, deputy leader of the ruling Law and Justice party. The Germans retort that, if the institutional compromise agreed in the constitutional treaty is reopened, it will become impossible to agree anything.

A deep suspicion of Germany among Polish leaders complicates matters. The foreign minister, Anna Fotyga, has said that Germany's dominant position in Europe lets it ignore criticism from other EU members. Marek Cichocki, one of two official negotiators on a new treaty, says he is not sure Germany's Angela Merkel will leave her national interests behind at the summit she is chairing. Poland is "extremely interested" in a successful outcome, he says, but not at any price. But efforts to find allies among other sceptics, such as the British and the Dutch, have failed. Only the Czechs back the Polish plan. Poland's isolation may be the best argument to use to persuade it to give the plan up.

Yet those who say the Poles are bound to climb down in the end could be in for a nasty shock. A previous Polish government helped to scupper a deal on the constitutional treaty in December 2003. And Poland vetoed a new partnership agreement with Russia last year, because the Russians were blocking Polish meat exports. The European Commission president, José Manuel Barroso, has since called the ban unjustified. He now tells the Poles that solidarity is a "two-way street", meaning they should not obstruct a new treaty. But the Polish government thinks the lesson from the Russian affair is that, if it is only stubborn enough, it gets what it wants.

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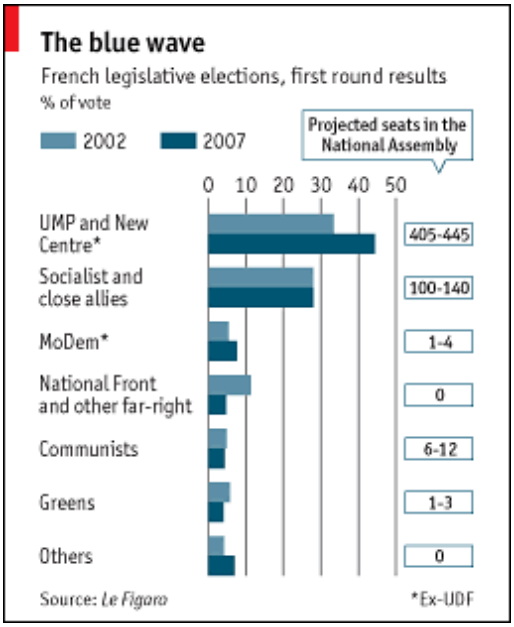
France's legislative elections

Blue landslide

Jun 14th 2007 | PARIS
From The Economist print edition

Nicolas Sarkozy heads for a huge parliamentary majority

Get article background



FOR three decades the French have kicked out at the polls every incumbent government, whether of left or right. Yet on June 17th, when they vote in the second round of their legislative election, they will not only break tradition and re-elect the right, but give it a landslide majority.

In the first round on June 10th, voters made their intentions clear. President Nicolas Sarkozy's UMP party and its new centrist friends bagged 42% of the vote—ten points more than his first-round presidential score. Fully 99 UMP candidates were elected outright with over 50% of the vote. Among them were seven members of the new government, including its prime minister, François Fillon. The UMP's share of parliamentary seats is likely to rise from 359 to 405-445, out of 577.

The chief losers were France's small parties. The new MoDem party of François Bayrou, a centrist who scored 18.6% in the first round of the presidential election in April, got only 7.6%, putting it on course for at most four seats—not enough to form an official parliamentary group. The far-right National Front was crushed, picking up 4.3%, less than half its presidential score, validating Mr Sarkozy's strategy of stealing its voters with hard-line policies. The Communist Party, once a huge force in French politics, also took only 4.3%.

The only sizeable opposition in parliament will be the Socialist Party, which with its close allies got 28%. Several leading Socialists, including Dominique Strauss-Kahn, a moderate, and Arnaud Montebourg, an aide to Ségolène Royal, the defeated presidential candidate, face tricky run-offs. Despite a last-ditch appeal by Ms Royal to Mr Bayrou, which was disowned by her party's bosses, he declined to tell supporters how to vote in the second round. Unless there is a higher turnout, the Socialists will win only 100-140 seats.

The election confirms the bold choice voters made in the presidential election to back reform. This is a country that ten years ago cheerfully elected the left on a promise of reducing the working week from 39 hours to 35 without loss of pay. Today, Mr Sarkozy's campaign mantra is the exact reverse: “work more to earn more”. He was swept into power on a promise of “rupture” with the past and a determination to restore the work ethic.

The French seem very happy with their choice. Polls say that Mr Sarkozy is the most popular newly elected president since De Gaulle. In giving him a crushing parliamentary majority, voters are handing him an exceptionally strong mandate for a tax-cutting, welfare-tightening, business-friendly programme, part of which will be voted through in an extraordinary parliamentary session in July.

The election also bears out Mr Sarkozy's strategy of neutralising the opposition by co-opting parts of it into his government. The choice of three ministers with roots in the left, including Bernard Kouchner as foreign minister, and some centrists once loyal to Mr Bayrou, was a masterstroke. Making Rachida Dati, who is of North African origin, justice minister, underlined the whiteness of the left's leaders. More broad-based appointments are expected when junior ministers are chosen next week. Possibilities include Rama Yade, a young (female) black politician, and Hervé Novelli, a liberal.

With a diminished power base in parliament, the Socialist Party will be further weakened by internal

rivalry. Ms Royal, who did not stand for re-election to parliament, has no official national post. Yet she is positioning herself to take over from François Hollande, the party boss, who promises to step down next year. The two have a particularly complicated relationship, since he is father to her four children. Other Socialists are divided over whether the party should move to the centre, or stay rooted on the left. “Sarkozy is doing to the French left what Tony Blair did to the British right for ten years,” says Eric Besson, a former leftist now in Mr Sarkozy's government. The real risk is that opposition to Mr Sarkozy will be too feeble.

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Turkey

Election fever

Jun 14th 2007 | ANKARA AND GAZIANTEP
From The Economist print edition

The election campaign in Turkey begins in a febrile atmosphere

Get article background

UNTIL a few weeks ago, Mehmet Simsek, a British-educated economist, earned a six-figure salary as a banker in London. But he has dropped all that to run as a parliamentary candidate for the ruling AK Party in Gaziantep, which borders Syria. He is standing “because I want to serve my country,” he says.

Born into grinding poverty in Batman, a mainly Kurdish town, Mr Simsek did not speak Turkish until he was six. Yet he then clawed his way to success. He is the poster boy of the 150 new candidates whom the prime minister, Recep Tayyip Erdogan, is fielding in the July 22nd election. His presence thins out the religious firebrands within the mildly Islamist AK ranks.

Turkey's meddlesome generals are not impressed. Having hinted at a possible coup in late April, they remain eager to stop Mr Erdogan returning to power alone. Indeed, in some ways, the contest is now between AK and the army. “The military hates AK, and that's the foundation of everything,” says one Western diplomat. But opinion polls suggest that Mr Erdogan's party may do better than the 34% it took in the 2002 election.

The secularist opposition is fragmented. A planned merger of the conservative True Path Party with the centre-right Motherland Party collapsed amid bickering over numbers of candidates from each side. A survey commissioned by AK suggests that the main secularist CHP opposition party may get 22%; and the ultra-nationalist MHP, 11%.

At least 30 candidates from the pro-Kurdish DTP are also expected to win seats; the Kurds have fielded 40 independents to get round the minimum 10% threshold for parties to have parliamentary representation. No other party is likely to get in, so AK might well be able again to form a government alone, says a top party official. “That is, if the elections take place at all,” he adds gloomily.

Yet Armagan Kuloglu, a retired air-force general, insists that, as long as AK picks a “reasonable” presidential candidate (meaning one whose wife does not wear an Islamic headscarf) to replace Ahmet Necdet Sezer, things will return to normal. It was Mr Erdogan's nomination of his foreign minister, Abdullah Gul (whose wife wears the headscarf) to succeed Mr Sezer that prompted the generals' threat to intervene on April 27th. A defiant AK responded by ramming through a law to allow a direct election of the president. This law was quashed by Mr Sezer. Few believe it will get past the constitutional court, which extraordinarily ruled invalid parliament's attempt to elect Mr Gul.

Some even fear that the court may now be tempted to launch proceedings to ban AK on the grounds that it is steering Turkey towards religious rule. For the time being, though, the opposition's strategy is to play on mounting public fury in the face of stepped-up PKK rebel attacks that have claimed the lives of dozens of Turkish soldiers in recent months.

On June 8th the army exhorted the Turkish public to exert its “popular reflexes” to counter terrorist threats. The call posted on the general staff website was seen by some as an invitation to attack the Kurds. This forced the generals to explain that they wanted the national resolve to be expressed through strictly peaceful means.

Meanwhile, Mr Erdogan is resisting pressure to order a cross-border operation against PKK bases in northern Iraq. This has enabled his critics to portray him as an American stooge. Crowds at the recent spate of funerals of Turkish soldiers killed in battle have taken to booing Mr Erdogan and any cabinet members who dare to show up. Mr Simsek may soon be yearning for his cushy London life again.

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Missile defence

Strategic surprise

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From The Economist print edition

The riddle of Russia's offer to help defend Europe from missiles

Get article background

DOES Vladimir Putin's idea of sharing an early-warning radar with America make any sense? The Russian president surprised G8 leaders on June 7th with a proposal to end the row over missile defences in Europe. Instead of building a new radar in the Czech Republic, America could share data from the Gabala radar that Russia leases from Azerbaijan. Rather than placing interceptors in Poland, they could be based farther south, in Turkey or at sea.

Mr Putin said this would offer better protection from Iranian missiles, and that Russia would no longer have to aim its warheads at Europe, as he had threatened. President George Bush said it was “interesting” and experts should discuss it. But officials at America's Missile Defence Agency (MDA) note that the Gabala radar is designed to scan whole regions, whereas the proposed X-band radar in the Czech Republic would send out a narrow beam to identify small objects in space and help direct interceptors. Gabala could be upgraded, or used to supplement other early-warning data.

America's interceptors on Aegis ships and mobile launchers could hit Iran's present missiles that reach the eastern Mediterranean (if they are not fooled by decoys). But the MDA says they would struggle, at great cost, to protect all of western Europe, let alone America, from future weapons of far greater range. Siting more powerful ground interceptors too close to Iran means they might not have enough time to hit fast-moving long-range missiles.

In short, it seems unlikely that Mr Putin means to help build Europe's missile shield, rather than sabotage it. But his move was a clever pre-emptive strike that threw other G8 leaders off balance.

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Russia and the West

Chilling time

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From The Economist print edition

Vladimir Putin asserts his country's place in the world

LONG-LEGGED beauties in G-strings; fashion models in thigh-length red boots; even Ramzan Kadyrov, the Chechen warlord-turned-president, sporting a diamond-studded belt. All were on display in St Petersburg last week, along with a bevy of the world's top corporate bosses, political leaders and diplomats, at the annual economic forum, which has become a showcase of Russia's economic resurgence under Vladimir Putin.

It was also, in a way, a microcosm of Russia. Those obsessed over who might succeed Mr Putin in 2008 noted that Sergei Ivanov, one of two front-runners, gave a presidential-style opening speech, but his rival, Dmitry Medvedev, was merely invited to sit on a panel. Mr Ivanov said that Russia would soon become the fifth-largest economy in the world. He also promised to fight red tape and graft.

Both ills seemed evident at the forum. The event was cordoned off from the public; even those who were accredited were restricted in their movements. A chief executive of one big company was apparently asked for sponsorship money; when he refused he found his hotel reservation cancelled. Yet foreign investors' appetite for Russian assets seems to be heartier than ever. None of the bosses who met Mr Putin behind closed doors made a fuss about Russia's investment climate. Jeroen van der Veer, the boss of Royal Dutch Shell, which recently had to cede control over its giant Sakhalin 2 project to Gazprom, even stood up and thanked the president. Despite the rough treatment of some foreign companies and worsening relations with the West, business deals are still coming thick and fast.

Arriving fresh from the G8 summit, Mr Putin asserted his place in the world and wrote off existing global organisations as archaic, undemocratic and unwieldy. “The world is changing before our very eyes,” he said. “Countries that seemed hopelessly backward only yesterday are becoming the world's fastest-growing economies today.” Russia no longer wanted simply to be part of the world's outdated architecture, but to change it, he told a panel that included Pascal Lamy, head of the World Trade Organisation, Peter Mandelson, the European trade commissioner, and Francis Fukuyama, a political scientist.

To remind the world of Russia's foreign-policy ambitions, Mr Putin invited Vojislav Kostunica, Serbia's prime minister, to the forum. Mr Kostunica thanked Russia for being a staunch opponent of the independence of Kosovo. A few days earlier Mr Putin had brushed aside a proposal by Nicolas Sarkozy, the new French president, to give Serbs and Albanians another six months to negotiate. “Our position on Kosovo is based on international law and on the decisions adopted by the UN Security Council. This resolution states black on white that Kosovo is an integral part of Serbia,” Mr Putin said. The Russians also ask, if Kosovo is granted independence, why not the two breakaway republics of Abkhazia and South Ossetia in Georgia?

This week the Russians summoned an emergency meeting in Vienna to berate the West in their row over the status of the Conventional Forces in Europe treaty, a post cold-war deal. And Mr Putin has also managed, at least for now, to outmanoeuvre the Americans over missile defences in Europe. At the G8 meeting he offered joint use of a radar that Russia leases from Azerbaijan instead (see article). Yet one former official in Washington says the same idea was floated five years ago. Discussion of it led nowhere then, and is even less likely to bear fruit now.

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Charlemagne

In vino veritas

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From The Economist print edition

Peter Schrank

Europe's belief in the market wavers when it comes to viticulture

DO EUROPEAN politicians trust the market? Surely they must. For all the bleating in parts of the continent about the beastliness of capitalism, Europe is good at business, spawning global firms that cut and thrust with the best of them. Yet if you look at an industry that is of special local pride to Europeans, such as wine, you wonder if their leaders truly believe in such concepts as risk and reward or profit and loss.

Next month the European Commission will announce a modest proposal to reform the heavily subsidised, minutely regulated European wine business. Even battle-hardened Brussels officials have been taken aback by the adverse reaction of national governments. Although each has specific gripes, the general response from Europe's wine belt has been to dig in and resist calls for liberalisation, in the name of tradition and high culture. Nor is the opposition about money—not least because the commission has made it clear that it is not cutting a cent from the wine budget. Mariann Fischer Boel, the (Danish) agriculture commissioner, concludes that “there is more tension in wine than I have seen in any other agricultural product.”

Some fuss was to be expected. Wine has always mattered to people. Not for nothing is it the stuff of parables, and the preferred gift of one ruler to another. Consumers in vine-free bits of Europe hop around the world as they browse supermarket shelves for wine (70% of wine drunk in Ireland is imported into the European Union, and the union may soon be a net importer of wine by volume). But head into Europe's wine belt, and shelves groan loyally under local wines, regardless of their quality and price. When Charlemagne visited the vineyards of the Moselle valley on the German-Luxembourg border, Luxembourgeois vintners boggled in horror at the idea of serving wines from the German side of the river. A generation back, stubborn farmers would not even drink wine from the next village, confesses Jerry Scheuer, of the national wine-marketing agency.

Not all the tussle over the commission's plan is ideological. There are differences over the use of sugar in the north and centre of Europe to increase the oomph of wine in bad years. But the biggest battle is over liberalisation: the bold idea of making wine that customers actually want to buy. At present, the rules for wine are among the most complex for all agricultural products. Grow grapes for eating, and the EU offers no subsidies (barring help with packaging and promotion via producers' organisations). Grow grapes for wine, and officials must approve everything, from where and when you plant new vines to what information goes on the label you put on the bottle.

Too many wine subsidies are, moreover, a reward for failure. Currently, about half a billion euros are

spent annually distilling unwanted wine and by-products into industrial alcohol, out of a total EU wine budget of €1.3 billion ($1.7 billion) a year. Some wine is produced more or less exclusively for destruction, complains Mrs Fischer Boel (herself a farmer's wife). That is “not sustainable”, she says. Under her plans, the budget would be steered towards promoting European wines in new markets overseas, and fostering a wider range of businesses in winemaking regions (lots of museums and tourist wine routes).

The commission also wants to grub up 200,000 hectares of vines (about 6% of the EU total) and to pay farmers who cannot sell their wine to leave the industry. That done, it plans to lift restrictions on new planting of vines in 2014, to allow successful producers to expand. But there is “huge opposition” to grubbing up. The German farm minister, Horst Seehofer, last month invited Mrs Fischer Boel and his fellow farm ministers to an abbey near Mainz, where he plied them with 50-year-old Riesling and proceeded to describe the commission's grubbing-up plans as “not very reasonable”. Farmers might be paid to pull out their vines—but what would they do then, he wondered, with vocal backing from Portugal and others.

Plant management

France and Luxembourg are more fussed by the scrapping of planting restrictions. After all, runs the French line, if farmers are able to plant vines wherever they like, they will have an incentive to plant where the costs are lowest. Such vineyards may produce mediocre wines that need treating with “industrial techniques” to become tasty, say French officials, in a swipe at mass-market wines from the new world. One explains his country's view that the wine industry is so complex that it requires state oversight to be “properly managed”.

In Luxembourg, meanwhile, officials fret that, if planting restrictions are lifted, farmers will be tempted to abandon the steepest slopes overlooking the Moselle, which require four times as much labour as flatter regions. To an outsider, this is a puzzling fear: the slopes produce more valuable wine, and there are special premiums to compensate for the extra costs of farming the steepest ones. Justifying such slope premiums, officials note that the terraced landscape dates back at least two millennia (at one point, Charlemagne is handed a Roman poem about Moselle vineyards, as proof of their antiquity). “Wine is different, it has a soul,” says Ferdinand Hoffstetter, who is a big wheel in the grand duchy's ministry of agriculture and viticulture. At dinner, guests may discuss a wine they are drinking. “One does not discuss cauliflowers.”

The odd thing is that France and Luxembourg are both rather good at making money from wine. Growers in both countries already earn more, on average, than any others in Europe. Luxembourg, in particular, is almost never left with unsold wine. Liberalisation could allow the more successful growers to profit handsomely. But something stops European governments from embracing the prospect. Perhaps it is that “soul” inside a bottle of wine. Once something has a spirit of its own, it is hard to trust the market to decide its fate.

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Gordon Brown and foreign affairs

Welcome to the world

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From The Economist print edition

AFP

The next prime minister's policies may not look very different from Tony Blair's, at least to start with

Gordon Brown

THE forthcoming European summit in Brussels may be marginally less momentous than the Potsdam conference of 1945, but that event provides one of the closest historical analogies to the odd circumstances in which next week's gathering will take place. Knowing that Clement Attlee might become prime minister during the conference (he did), Winston Churchill took his rival with him to meet Truman and Stalin. Next week Britain's European partners will try to negotiate a new treaty with Tony Blair (see article), knowing that any deal they strike will have to be ratified by his imminent successor. But this time the successor—Gordon Brown—is unlikely to be there.

It is not quite true, as a common complaint runs, that nothing is known about the foreign-policy thinking of the man who will become Britain's prime minister on June 27th. Mr Brown can probably claim to have done as much as any contemporary statesman to address third-world disease, poverty and debt. During the run-in to his premiership he has talked about doing more to stop the carnage in Darfur, and he may mean it.

His scattered comments on various international dilemmas suggest at least one broader idea, which may prove a more pragmatic grounding than Mr Blair's ill-fated Manicheanism, if also a limited one: a sort of economic determinism. Mr Brown has repeatedly alluded, for example, to the disparity between Israeli and Palestinian GDP per person, and emphasised the economic plight of Afghanistan, the country that may in time represent his most severe foreign-policy challenge. That suggests a focus as much on the causes of terrorism as on the thing itself. But beyond that—and for all his years in front-rank politics—the rest is mostly silence.

His best-known contribution to European policy has been as the architect and guardian of the five economic tests that kept Britain out of the European single currency. When one of his team praises Europe, there is generally a “but” lurking later on in the sentence. In a pamphlet on Europe published recently by Ed Balls, one of his most trusted allies, the dominant adjective is “hard-headed”. Mr Brown seems even less likely than Mr Blair to countenance an extension of qualified majority voting into areas such as criminal justice, or to accept the legal enshrinement of European social rights in any new treaty—two items on the Brussels agenda.

Yet Mr Brown's reputation for Euroscepticism is based as much on his curmudgeonly style as on

substance—and larger imperatives may squeeze his room for manoeuvre. Mr Brown will not want to have to take a new treaty to the country in a referendum, or risk making Europe into the debilitating issue for his government that it once was for the Tories. But neither will he want to be marginalised in European decision-making. Much of what he may hope to achieve internationally will depend on European co-operation—especially if, for all his transatlantic connections and holiday-making, his relationship with George Bush is cooler than Mr Blair's.

So Mr Brown may find that he is bound by whatever Mr Blair agrees to in Brussels; the two have, in theory, been busily developing Britain's stance together and will jointly meet France's Nicolas Sarkozy on the eve of the summit. Likewise, Mr Brown's policy on Iraq—which, unlike Brussels, he visited this week—will not look very different from Mr Blair's, however much he might want it to.

Home by Christmas?

Since his succession became assured last month, Mr Brown has been quietly attempting to address his perceived electoral weaknesses. He has leaked tough anti-terrorism measures, for example, restated his commitment to public-service reform and tried to offset his Scottish background by promoting a new Britishness. But he has not, as many in the Labour party would sorely like him to (and as some of the six candidates in the ongoing contest for the Labour Party's deputy leadership have done) resiled from his support of the war.

In Iraq this week Mr Brown went no further than pledging greater separation, in the future, between intelligence and politics; he has also intimated a bigger role for Parliament in any decision to go to war. But he did not hint at any acceleration of the phased withdrawal of British forces from southern Iraq that is already underway. To do so would irk the Americans, and make Mr Brown seem responsible for the even worse bloodletting that might follow. The hope, as before, is that British forces will be out altogether by early next year. What might alter that expectation is the report on the efficacy of the “surge” that is due from American commanders in September; until then, there may be little for Mr Brown to do.

In government, Mr Brown's style has been to consider issues at length, with the aid of trusted advisers, before making an Olympian decision; some observers question how equipped he will be for the up-tempo exigencies of international affairs. Criticism of his reluctance to discuss foreign policy before he enters office is less fair. Doing so would lay him open to charges of presumption, and many of his decisions will in any event concern unforeseeable events. He will work with a newish set of European leaders, and in 2009 (assuming he does not call and lose an early general election) with a new American president. The one decision Mr Brown will definitely not have to make is whether to invade Iraq alongside Mr Bush.

But he may be called upon to support a military strike against Iran. The only other recent politician who spent as long as Mr Brown waiting to inherit the top job (after Attlee and Churchill) was Anthony Eden. He was undone by the Suez crisis almost immediately. Mr Brown is presumably readier than he lets on.

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Feral media

Poking sticks at lions

Jun 14th 2007
From The Economist print edition

Tony Blair's attack on journalism is a bit rich, but may have to be listened to

Get article background

TONY BLAIR, more than any other prime minister in recent times, seemed instinctively to understand the ways journalists think, with an unerring knack for finding the words to provoke the coverage he wanted. In ten years at the top, despite exposure in the press of some horribly uncomfortable secrets, including alleged cash for honours and kickbacks to Saudi princes, he rarely made a gaffe, lost his composure or misjudged the mood—even in the dark days of the Iraq war. So his characterisation on June 12th of the media as a "feral beast" that "hunts in packs" was more than just piercing to journalists. It felt to many like an act of infidelity.

In one of his last speeches before he hands over power to Gordon Brown on June 27th, Mr Blair argued that fragmentation of the media, heightened competition among different outlets and the introduction of rolling 24-hour news channels had contributed to a whole host of journalistic shortcomings: the mingling of fact and opinion; a failure to reflect ambiguity and to provide balanced criticism; and the elevation of sensation and controversy above straight reporting. Above all, though, he blamed the media for a widespread cynicism about politics and public life that he believes is sapping "the country's confidence and self-belief", undermining its assessment of itself and its institutions.

Reuters

Keeping the beasts at bay

For a prime minister who treats every public appearance like a theatre performance, and whose administration will always be synonymous with spin, to question the system he has so often exploited seems a bit rich. And the fact that the only newspaper he specifically criticised was the *Independent* left many wondering whether he had singled it out because of its consistent opposition to the war in Iraq, or because it is the smallest of the national daily papers.

Yet despite editors' desire to shoot the messenger, Mr Blair has a point when he identifies this age of journalism as one of mass impact. Many newspapers and television producers have discovered that people have short attention spans and a hunger for scandal, gossip and disgust. They feed them accordingly, often ignominiously, by bugging telephones and badgering celebrities (or merely those unlucky enough to have dated them). Mr Blair's team has played its part. It moved politics from Parliament to the television studio, and rewarded or chastised journalists by granting or withholding access to people in power.

Yet for all their failings, these clamorous media also produce some thoughtful reporting and opinion. And they have often been a more tenacious check on the government of the day than the official opposition. That journalists who once feted Mr Blair have now turned on him says more about how he has squandered his once considerable authority and the public's trust than it does about the state of British journalism.

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New rules on paedophiles

The enforcer bows out

Jun 14th 2007
From The Economist print edition

Tough talk but measured action to curb sex offenders who target children

WHEN John Reid took over the job of home secretary in May 2006, it was in the wake of two damaging scandals involving sex offenders. His predecessor, Charles Clarke, had been sacked after it emerged that on his watch foreign criminals, including some convicted for sexual crimes, had been released instead of deported after finishing their prison sentences. A few months earlier Ruth Kelly, then education secretary, had faced criticism when it transpired that more than 150 individuals on the sex offenders' register had been cleared to work with children.

Mr Reid wasted no time making political capital. He declared himself “The Enforcer”, and gave the impression he thought chemically castrating paedophiles was a fine idea. Then he sent an adviser to America to examine “Megan's Law”, under which local people are informed if a known sex offender moves into their area, and gave the impression that he was keen on introducing something similar in Britain. And just a few weeks into his new job, he announced a review of the systems that are meant to protect children from unknown sex offenders.

Since then, fear of paedophilia has become even more rife: the disappearance in May, as yet unexplained, of three-year-old Madeleine McCann from a hotel in Portugal has kept it in the public eye. So when Mr Reid's review was published on June 13th, days before he is to return to the backbenches, headlines were guaranteed.

Despite a long-running campaign by the *News of the World*, Britain's bestselling newspaper, Britain is not to get a Megan's Law; Mr Reid has become convinced that by driving paedophiles underground it would endanger more children than it protected. But more people will be entitled to get information from the sex offenders' register. As the law stands, only employers can find out whether a named individual is on that list; now that right is to be extended to anyone who wants to check on a person who will have “regular, unsupervised access” to their child—perhaps a single mother's new boyfriend, or just a friendly neighbourhood guy who has set up a Meccano club for youngsters.

The most eye-catching headlines referred to plans to give testosterone suppressants to more sex offenders—chemical castration, as it is more crudely termed. “Fiends to get chop,” screamed the *Sun*, a tabloid newspaper.

Karen Harrison, a lecturer at the University of the West of England who has reviewed the evidence on this hormone therapy, deplores the language. Still, she says, the policy is sound. Paedophiles who experience frequent, intrusive thoughts about sex with children can benefit from drugs that suppress their sex hormones—and with luck their deviant fantasies too.

There have been calls to make such drug treatment compulsory, but that would be a huge mistake, explains Ray Wyre, a consultant and expert witness on sex crime. “It only works for a few offenders—you don't want to use it for those who also experience sexual arousal in relation to adults, because you want to enhance that feeling, not suppress it. And it must be entirely voluntary, otherwise you could cause violent offenders to become enraged and even more dangerous.”

One of the proposed measures is expected to become compulsory, however: the use of polygraphs, more commonly known as lie detectors, to monitor sex offenders on probation. Despite the machines' poor accuracy—typically, they wrongly identify 10-20% of yes-no answers as lies or truth—they do seem to have benefits when used as part of a package of support and treatment for sex offenders.

Many paedophiles are unwilling to face the truth about themselves and hence to state it, says Don Grubin, a professor of forensic psychiatry at Newcastle University who has carried out trials for the Home Office. The machines seem to help them do so. Around 70% of men regularly questioned with polygraphs disclosed information that their probation officer thought important to their treatment, against 15% of

those in a control group. A third of the disclosures suggested the offender posed a greater risk to children than had been supposed.

Mr Grubin illustrates the usefulness of polygraphs by telling what in this line of business counts as a success story. “One man disclosed he had a girlfriend, which his probation officer hadn't known. The officer visited the girlfriend. It turned out she was a single mother, he had been helping her to decorate her living room—and stripping down to his underwear to do so in order to avoid paint splashes on his clothes.” The man was sent back to jail.

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Wealthy women

Sex and money

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From The Economist print edition

By 2020 over half of Britain's millionaires may be female. Why?

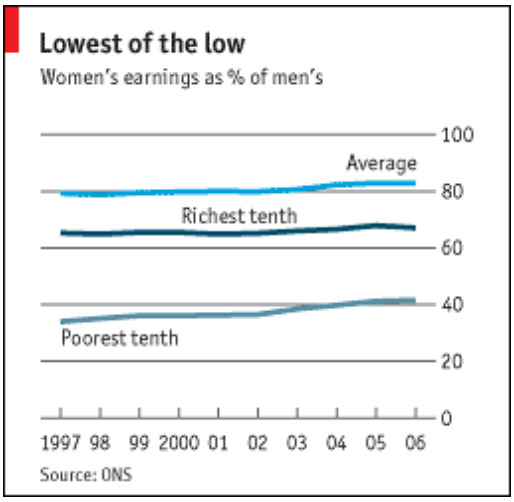
IN APRIL this year, 92 females graced the *Sunday Times* Rich List, an annual round-up of Britain's 1,000 wealthiest people. Ten years ago there were 64. And rich women are getting richer, too: over the decade the average worth of female millionaires has grown by more than half. Today Britain's wealthiest woman has £4.9 billion ($9.6 billion) to her name, compared with the paltry £1.5 billion her counterpart had in 1997. The Centre for Economics and Business Research (CEBR) reckons female millionaires will outnumber male ones by 2020, and by 2025 women will control 60% of the nation's private wealth. They do better at school and in higher education, and they live longer. Girl power, it seems, never had it so good.

Is this wave of affluence a chimera or does it have solid underpinnings? A report this week by the Economist Intelligence Unit, our sister company, for Barclays Wealth, a financial-management firm, claims that the historical sources of women's wealth—marriage, inheritance and divorce—have been replaced by independent income, business ownership and investments. More than 80% of women now derive their riches from personal earnings, it says, particularly from their own businesses. Divorce, long the engine that propelled women into prosperity, is cited by only 2.9% of those questioned as the main source of their wealth.

But Philip Beresford, who compiles the Rich List, dismisses the idea that women are breaking into its ranks independently of men. “There is no evidence, yet, of seriously rich female entrepreneurs coming in huge numbers,” he says. The woman who tops the list is in fact Lady Green, whose husband made them both a fortune in retailing. If the CEBR is correct, Mr Beresford thinks most British millionairesses will still be wives, daughters and divorcees.

A glance at the number of women in the top ranks of business suggests he is right. Women make up only a tenth of the directors of FTSE-100 firms. They are also under-represented in the upper echelons of management. In a report in March, PricewaterhouseCoopers, an accountancy firm, said that the number of female senior managers in FTSE-350 firms had fallen by 40% since 2002. This may be due to a prevailing macho culture at the top; or it may reflect the costs of child care, which have risen by 27% in the same period.

If things look sticky at the top, women at the bottom find the relative going far tougher. Although the gap between men's and women's earnings has shrunk for those at all income levels, it remains far bigger among the poorest tenth than in any other group (see chart). The latest annual report from the Equal Opportunities Commission shows why: men still dominate highly paid work, and the proportion of female graduates in low-level jobs has rocketed in the past decade, along with the number of people going to university.



It will take another 60 years before there is equality between the sexes in British business (and 200 to achieve the same in Parliament), the commission calculates. Progress, it moans, is “painfully slow and at risk of going into reverse”. It's still hard to be a woman.

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Jury trials

Still without peer

Jun 14th 2007
From The Economist print edition

But their sum is better than their sometimes biased parts

HOW fair are juries? A government-sponsored study published this week offers timely support for a system that used to be regarded as one of the bulwarks of an Englishman's civil liberties but has come under increasing attack of late. In England, unlike America, juries no longer decide most civil trials. And now the government is pushing a bill through Parliament to abolish them in complex fraud cases. Many fear a slippery slope.

In America the selection of jurors acceptable to both the prosecution and the defence sometimes takes longer than the trial itself. The process can involve exhaustive interviews about prospective jurors' beliefs and prejudices. But in Britain jurors are selected randomly from the 94 Crown Court catchment areas in England and Wales. Most accept the call, and there is little chance to challenge a juror unless he actually knows the defendant. This has not prevented assertions that English juries produce verdicts that are racially biased because they do not accurately reflect society's ethnic mix.

A four-year study by a team at the University of Birmingham's law school, led by Cheryl Thomas, has shown those charges to be largely a myth. In over 95% of the 84 Crown Courts that were surveyed, ethnic minorities were not under-represented among either those summoned for jury service or those actually serving as jurors. Members of ethnic minorities and whites were equally willing to do jury service and to support the jury system.

The study punctured another myth too: that juries are largely made up of the retired and the unemployed. Women, young people and self-employed folk were all fully represented, the report's authors concluded. And far from shirking jury duty, fancy people in fancy jobs were found to be more conscientious than others, if anything. All in all, jury pools seem to reflect the local population quite closely in terms of race, gender, age and background.

Yet the perception of racial bias is not always unfounded. In London, where 45% of ethnic minorities live and a quarter of all jurors serve, juries are always racially mixed. But in 74 of the 94 court-catchment areas, ethnic minorities, though sometimes concentrated in pockets, make up less than 10% of the population overall. They therefore have little chance of being selected for jury duty.

Ms Thomas and her team chose to study racially mixed juries to see whether a defendant's race influenced deliberations (a later study will look at racial bias among all-white juries). Contrary to widespread belief, no discrimination was found. In an elaborate case simulation at London's Blackfriars court, which involved more than 300 jurors on 27 juries, the verdicts were all remarkably similar, regardless of whether the defendant was black, Asian or white.

This does not mean that a defendant's race did not influence individual jurors. Black and Asian jury members tended to show more leniency toward black defendants (though not, interestingly, toward Asians), whereas white jurors were usually softer on white defendants. But these individual biases did not affect the collective verdicts of the juries, the report says. Ten of 12 jurors must usually agree for a verdict to be reached, so individual biases cancelled each other out.

Lord Falconer, the newly styled justice secretary, hailed the report as a vindication of juries, which he believes are “utterly vital to our justice system”. This has not, apparently, changed his and the government's determination to abolish juries for complex and lengthy fraud trials, however—despite the opposition of most lawyers, civil-liberties groups and the vast majority of the British public.

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War and human rights

The lengthening arm of the law

Jun 14th 2007
From The Economist print edition

The law lords interpret human-rights protection broadly

A LANDMARK decision this week has appalled many of Britain's military top brass while delighting civil-liberties groups. On June 13th the House of Lords ruled that anyone held in British custody anywhere in the world is entitled to the full protection of both the 1998 Human Rights Act and the European Convention on Human Rights.

In a four-to-one decision, Britain's highest court upheld part of a petition by relatives of Baha Mousa, a hotel receptionist who died after being savagely beaten by soldiers at a British military base in Basra, southern Iraq, in September 2003. The ruling could lead to an independent public inquiry into his death. The law lords dismissed appeals on behalf of five other Iraqi civilians, shot in the streets of Basra while Britain was the occupying power there, on the ground that they were not in British custody and were therefore not covered by British human-rights law. The five plan to take their cases to the European Court in Strasbourg.

Of the seven British soldiers charged in relation to Mr Mousa's death, six have been acquitted. Last month Corporal Donald Payne was sentenced to 12 months in prison after pleading guilty to the “inhumane treatment” of civilians. A post mortem found that Mr Mousa had suffered 93 injuries, including fractured ribs and a broken nose. He and eight others were handcuffed, hooded, deprived of sleep and forced to maintain excruciating stress positions while being kicked and beaten as part of what the Army itself has described as an “unlawful conditioning process”.

Colonel David Black of the Duke of Lancaster's Regiment, with which the seven accused were also serving, expressed anger that such “gallant men who had to make life-and-death decisions in a split second” had been brought to trial. “Our officers and men need to be able to operate confidently on our behalf without looking over their shoulders, inhibited by the fear of...overzealous and remote officialdom,” he stormed.

But Sir Michael Jackson, a former head of the armed forces, said he believed the “vast majority” of British soldiers would “feel uncomfortable, even ashamed perhaps” that such deeds could have been carried out by members of their army. His successor, General Sir Richard Dannatt, has called for a review of the case with a view to bringing further charges.

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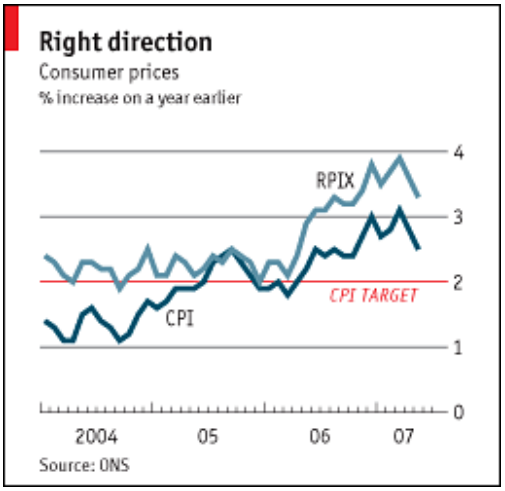
Inflation prospects

Down but not out

Jun 14th 2007
From The Economist print edition

Inflation is falling but interest rates will still rise again

Get article background



JUST two months ago a surge in inflation triggered the first mandatory public letter from the Bank of England explaining why since the central bank was made operationally independent a decade ago. Consumer prices had risen by 3.1% in the year to March, more than a percentage point away from the government's 2.0% target and the highest since the official series began in 1997. The broader measure of retail prices had increased by 4.8%, the fastest since July 1991.

This most unwelcome development prompted worries about a return to Britain's bad inflationary ways. The relapse, however, has proved short-lived. The latest figures show that consumer-price inflation slowed to 2.5% in the year to May. Retail-price inflation came down to 4.3%; excluding mortgage-interest payments, it dropped from 3.9% in the year to March to 3.3% in May.

Inflation is receding mainly because household energy bills are now falling whereas they were rising sharply in the spring of 2006. As a result, the inflation rate for home electricity and gas plummeted from 24.9% in the year to March to 9.5% in May. The turnaround in home energy costs should continue to bring down overall inflation in the months ahead. The Bank of England's central projection, published in its *Inflation Report* in May, was that consumer-price inflation would decline below 2.0% by the start of next year.

Unfortunately, these brighter short-term prospects do not mean that the inflation scare was a fuss about nothing caused by a temporary spurt in energy costs. There are signs that people have started to expect higher inflation and to base decisions on it. Although this year's pay deals have been more subdued than was once feared, surveys of businesses indicate that more of them intend to push up prices. According to the CBI, the balance of manufacturing firms expecting to raise rather than to reduce domestic prices reached a 12-year high in May.

Such behaviour is consistent with an economy that is running too close to capacity. As Mervyn King, the bank's governor, pointed out on June 11th, recent GDP growth has been above its long-run average, thanks to a buoyant global economy and a rapid upturn in business investment. Furthermore, broad money and bank lending have been increasing rapidly. If this were merely because people wanted to hold more money, it would not matter for prices. But Mr King said that it was also because banks were increasingly willing to provide finance, and that this made it likely to spur inflation.

Mr King's hawkish speech reinforced the message that the monetary squeeze will continue. That tightening has already raised the base rate from 4.5% last summer to 5.5% in May. The bank signalled in last month's *Inflation Report* that another quarter-point rise would be necessary before too long, so any borrowers who relaxed when the bank kept the rate at 5.5% on June 7th should start to worry again. The base rate is likely to reach 5.75% in July or August and could climb to 6.0% by the end of the year unless the risks of an upward movement in prices attenuate. Inflation may be coming down, but interest rates are still going up.

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Flood defences

Rickety dykes

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From The Economist print edition

Rising oceans are making Britain's flood defences look worryingly puny

PROTECTED for centuries by the sea from the depredation of Europe's various despots, the English are, unsurprisingly, rather fond of their little channel. History has taught them to see it as something benign, like a faithful dog—unlike the Dutch, for instance, who have been encouraged by experience to look out to sea with trepidation.

Where defences are built to keep seawaters out of homes and offices, flood planners prepare for just a little unruliness. They build the walls high enough to withstand the biggest flood expected every 200 years (or 100 years for walls along flood-prone rivers) but no higher. The Dutch build their dykes to withstand the worst storm that nature is likely to throw at them for 10,000 years.

Yet three fresh reports suggest that Britain would do well to start thinking like its neighbours. In the first, the Environment Agency gave warning that the risk of flooding in London is increasing as sea levels rise. It reckons that at least £4 billion will have to be spent strengthening the Thames Barrier protecting the capital. Separately, Sir David King, the government's chief scientist, said floods are the biggest immediate threat to Britain from global warming.

More worrying, though, are the conclusions of a study of flood defences by the National Audit Office, a spending watchdog. It reckons that only half of such systems are in “good” or “very good” condition, despite the fact that last year some £176m was spent maintaining them and £162m on building new ones. The Environment Agency says it needs an extra £150m a year to keep them all in serviceable shape.

That may be money well spent. The government estimates that £1 spent on protection saves at least £6 in damage from flooding. Insurers, meanwhile, are buying their own protection. In April Allianz issued a $150m (£75m) bond that lets it pass on the risk of, among other catastrophes, the flooding of London.

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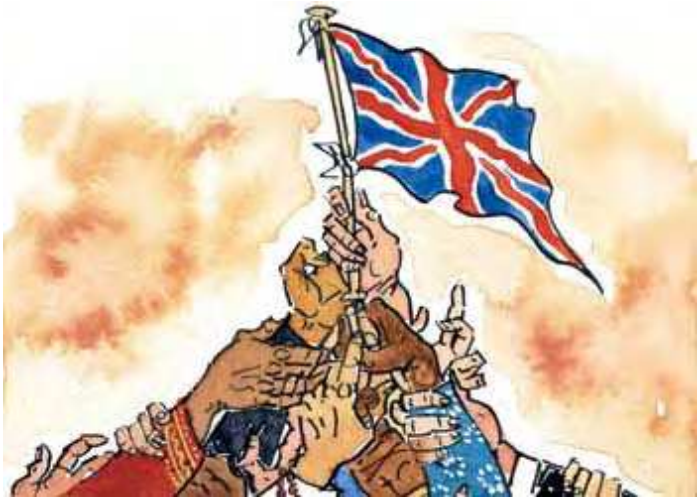
Bagehot

In praise of multiculturalism

Jun 14th 2007
From The Economist print edition

Steve OBrien



Almost everyone now agrees that it has failed. Has it really?

SWEAR WORDS, like everything else, are subject to fashion. Since the London bombings of 2005, a new obscenity has entered the lexicon, alongside the anatomical and the blasphemous: multiculturalism. Once it connoted curry and the Notting Hill carnival; these days, when applied to British politicians or their policies, “multiculturalist” is almost as derogatory a term as “socialist” or “neocon”. Even more than they agree about most other things, the main political parties are united in their conviction that multiculturalism is a perniciously naive idea whose time has gone, or ought never to have come at all.

Last week, for example, David Cameron, the Tory leader, warned an unenraptured audience of Islamic leaders about the dangers of “cultural separatism” in Muslim communities. “The creed of multiculturalism,” he alleged—meaning, roughly, a combination of indulgence and subsidy for minorities and their institutions—had contributed to a “deliberate weakening of our collective identity”. Two Labour ministers, meanwhile, suggested the creation of an annual holiday to help cultivate a renewed sense of Britishness. A commission set up by the government last year, to advise on segregation and extremism, recommended this week that less money be spent on providing civic information in Urdu, Arabic and so on, and more on unmulticultural English lessons. The need to rethink Britishness for a post-multicultural age is a regular theme for Gordon Brown, the (Scottish) prime-minister-not-much-longer-in-waiting.

The shock of hearing a suicide-bomber's video testament delivered in a Yorkshire accent—hitherto more associated with cricket commentary than terrorism—spelled the end for multiculturalism. But even before the bombings the word was becoming a slur. Rioting by Asian youths across northern England in the summer of 2001 forced curry-house multiculturalists to confront the reality that government nonchalance had helped to engender. As well as the burned cars, they saw fossilised social mores and the angry alienation of second- and third-generation Pakistani and Bangladeshi immigrants, some of whom profess more allegiance to the global *umma* than to Britain.

All that is real, tragic and terrifying, and becomes more so with every blood-curdling terrorist plot that British police uncover. All the same, poor, deplored multiculturalism has been much less bad than its many detractors now claim.

There are three reasons why the legions of anti-multiculturalists are wrong. First, left to their own devices many immigrants to Britain have prospered. Indians and some other minorities do better than whites in schools. There are many types of British Muslims, and some of them are moving up and out. The 2005 bombers, it now seems, were shaped and motivated as much by strife within Muslim communities—fanatical Islamism serving as a perverse form of intergenerational rebellion—as by schisms between

Muslims and wider British society. Nor have immigration and multiculturalism led to so very much restlessness among the natives. The nasty, if clownish, British National Party has occasionally picked up the odd council seat, but it is a piffling force compared with far-right outfits elsewhere in Europe.

Second, multiculturalism's detractors tend to concentrate on the easy targets. It is plainly true, for example, that Britain should anathemise egregious practices such as forced marriage or “honour killing”. That government commission and others are right to emphasise English lessons, especially for women, since an inability to speak it harms their children's prospects as well as their own. The commission is right again to imply that too much funding has historically and divisively been offered to community groups that cater to only one ethnicity or religion. (The commission also advocated better cultural preparation for new arrivals, for example to help them understand the British philosophy of queuing and thus avoid ruckuses at bus-stops and post offices.) But less tends to be said about what, in the end, are the most important determinants of segregation, namely housing and education. “Multicultural” policies—letting people, by and large, live and educate their children where they like—may have inadvertently created neighbourhoods and schools in which almost every face is the same colour. But as well as being illiberal, most of the alternatives would probably create more trouble and anger than they prevent.

Americans in glass houses

Finally—and for all the disparaging talk about Londonistan, capital of Eurabia—other countries, including those where the disparagement of multiculturalism is sharpest, have less to teach Britain about integration than is often assumed. That is partly because they have failures too, and partly because their circumstances are too different to be meaningfully compared. Mr Cameron talked admiringly about the American solidarity embodied in the pledge of allegiance and Mount Rushmore. Yet in Chicago and elsewhere, black Americans are more ghettoised than any minority is anywhere in Britain (they also intermarry less than blacks in Britain). Slavery, of course, makes black Americans a special case—but so are any number of British Muslims. Many are refugees; others are from families who migrated to the old imperial motherland from backward parts of Pakistan and Bangladesh, to work in British factories that subsequently closed. Many of their American counterparts may indeed stick the Stars and Stripes on their front lawn as devoutly as do other hyphenated Americans; but, apart from their faith, they may not have much in common with the Muslims of Burnley or Oldham.

The vogue for promoting a new, inclusive Britishness is well-intentioned, but probably doomed. National identities cannot be confected—and besides, the British already have one. Privacy and freedom are two of its nicer components, and multiculturalism, for all its failings, has been a fine expression of it.

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The World Health Organisation

How Dr Chan intends to defend the planet from pandemics

Jun 14th 2007 | GENEVA
From The Economist print edition

Reuters

The new powers vested in a UN agency's boss should, in theory, cut the risk of killer diseases raging round the world

WITH its big electronic screens and global satellite links, the command centre feels like the heart of a vast military campaign. Every morning, there are strategy sessions to mull the latest intelligence, and rapid-response teams are sent to remote places at the commander's bidding.

In this case, the control room answers not to any general, but to the World Health Organisation (WHO)—the Geneva-based United Nations agency whose job is to monitor and respond to infectious diseases. In recent years, it has nipped in the bud over six dozen outbreaks that could have led to global crises. Unless outbreaks are spotted early, and virus strains shared with researchers worldwide, there is a recurring risk of a pandemic similar to the strains of influenza which caused havoc over the past century (see table).

That may sound obvious, but in practice, countries don't always help the WHO. In 2002, when the respiratory disease dubbed SARS emerged in China, the authorities hid the early signs for fear of hurting trade and tourism. More recently, Indonesia has been mired in a more intractable dispute—raising hard questions about the balance of economic power in the world.

A scourge worth preventing

Twentieth-century influenza pandemics

Year	Virus subtype	Deaths, m	Prevalence, % of population
1918	H1N1	40-100	33
1957	H2N2	2	25-30
1968	H3N2	1	15

Source: Lee and Fidler, "Avian and pandemic influenza: Progress and problems with global health governance", forthcoming article in *Global Public Health*

Last year, the Indonesians stopped giving the WHO samples of the H5 virus which is responsible for avian flu, a disease that has forced a mass slaughter of poultry in many countries and could, if it mutates, cause a deadly epidemic among humans. Indonesia won some sympathy for its complaint that it was giving away precious intellectual property, while it might well be unable to afford the vaccines which are then developed. There was little the WHO could do in response.

However the agency's hand will be strengthened by a treaty that enters force on June 15th. The new "international health regulations" (IHRs) oblige governments to co-operate with Margaret Chan, the WHO's director-general, and report potential pandemics at once. If it succeeds, this could lead to a "good-governance revolution" in disease prevention, says David Fidler of Indiana University.

But will it work? Sceptics are not short of arguments. The new system requires countries to do a lot of things to improve public health, but provides no money. Implementing the treaty could prove hard in federal states like Canada and the United States, adds Kumanan Wilson of the University of Toronto; some of the actions required by the IHRs are handled at state or provincial level. Even so, the IHRs have

one advantage over treaties like the Kyoto protocol on climate change. At least in the short term, Kyoto imposes heavy costs on some countries that are hard to explain to voters. But every country has an immediate, obvious interest in avoiding pandemics. That, in principle, could put a great deal of power in Dr Chan's hands.

The new treaty commits countries to tell her within 24 hours of any emerging global health threat, something they have often failed to do. In a break with normal UN practice, the WHO will no longer be required only to rely on data from member governments: it can now use non-government sources, including the press and the internet, in its surveillance. If a country tries to hide vital data about a potential pandemic, Dr Chan can override national sensitivities and ring the alarm bells.

That sounds promising, but it does not quite deal with the problem raised by Indonesia. Poor countries, where most potential pandemics start, rarely have the health facilities or vaccine-making capacity to combat a serious outbreak on their own; they rely on external help and vaccine imports. They complain that big firms in rich countries are exploiting their vulnerability. Indonesian officials put it bluntly: why should they hand over precious virus strains when the resultant vaccine may never benefit their people?

The Indonesians have a point. It is true that most of the factories that make pandemic vaccines are located in rich countries, and those plants cannot make enough to cover even the rich world's needs. And in previous global health panics, it has been obvious that rich states think of their own voters first. So at a WHO assembly in May, rich countries agreed that the poor must have access to life-saving vaccines in the event of a pandemic; Indonesia duly agreed to share its virus samples again. On June 13th Dr Chan announced plans to create a global stockpile of avian flu vaccine with the help of donations from GlaxoSmithKline, a British drugs firm, and others.

EPA

Dr Chan: WHO's commander-in-chief

Fine, but how exactly any strategic stockpile will be split up during a global pandemic remains a mystery. The new rules do not offer much help on that front.

What Indonesia and other poor states really want is to have vaccine-making units within their borders. The WHO has helped a few poor countries to start such plants, but the technology involved is tricky. Not every country in the world can expect to have such factories; and those that do may well resist the idea of helping rival states. As Laurie Garrett of America's Council on Foreign Relations notes, Indonesian politicians would balk at sharing vaccines with Papua New Guinea. That explains why stockpiling and building new factories are partial answers at best to the global challenge.

Perhaps the best reason to take the IHRs seriously is that by making it harder for governments to hide pandemic data, they make innovation more likely. And innovation is desperately needed: today's vaccines cannot be made in the volume needed for the whole world, and they cannot keep up with the evolution of some virus strains. But as Joseph Hogan of GE, an industrial firm with a health division, points out, smarter vaccines and more efficient manufacturing may solve that problem. Vijay Samant of Vical—one of several firms now investing heavily in a new generation of pandemic technology—also welcomes the increased powers for Dr Chan and her agency. “Without access to the latest strains, researchers can't come up with new vaccines,” he argues. Dr Chan faces a big job, and big expectations.

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Economist.com WORLD INTERNATIONAL

Boycotting universities

Slamming Israel, giving Palestinians a free pass

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A strangely one-sided boycott in Britain stirs global rage

ALMOST everybody loves a nice, neat stereotype, and Yair Lapid, an Israeli writer and talk-show host, is no exception. Adding his own voice to the international chorus of indignation over a threatened British boycott of Israeli academia, Mr Lapid imagines the learned gentlemen pondering their scurrilous decision.

“The blue-grey smoke wafts from their pipes, their foreheads wrinkle, a watch on their wrist sits underneath the sleeve of a Harris Tweed jacket, with its leather elbow patch,” Mr Lapid muses in *Yedioth Ahronoth*, an Israeli daily newspaper, as he contrasts England's dreaming spires with his daily experience of rocket attacks and suicide bombs.

In reality, of course, British professors are a variegated species—as likely to be wearing soiled denims as well-cut tweed—and exactly the same goes for Israeli ones. Along with quite a few of his compatriots, Mr Lapid regards his country's campuses as “fortresses of the radical left”—though he clearly finds enough merit in them to consider them worth defending from the absent-minded academics of Albion.

No such spirit of subtlety or differentiation was evident in the vote taken on May 30th at the inaugural conference of a newly formed association of British academics, the University and College Union, which claims to speak for 120,000 teachers and other employees. A mere 257 of them took part in the “anti-Israel” ballot, with 158 voting in favour and 99 against. In favour of what, exactly? To be precise, what they endorsed was the circulation (to all the union's branches, for “information and discussion”) of the full text of an appeal by Palestinian trade unions to boycott Israeli academic and cultural activities.

Things are not going to move very fast, at least in the dons' view of things. Local branches of the UCU will debate the text, probably during the autumn term; then there may be a ballot among all the members. Sally Hunt, the union's general secretary, has said she doesn't believe a majority of her members either support the motion or regard the issue as a priority.

Tony Blair, at least, showed somewhat quicker political reflexes: the prime minister immediately telephoned his Israeli counterpart to voice his disapproval and despatched his universities minister, Bill Rammell, to Israel to try limiting the potential damage (amid warnings from Israeli trade unions that they may refuse to unload British goods).

If the British eggheads are taking things at a leisurely pace, the same cannot be said of their opponents, whose reaction was instantaneous and incandescent—especially in the United States. Alan Dershowitz, a Harvard University law professor, has said he is rounding up a team of 100 lawyers on both sides of the Atlantic in order to “devastate and bankrupt” anyone acting against Israeli universities. He predicted that British academia would be “destroyed” if it went ahead with a boycott of Israel, because the countervailing reaction would be so powerful.

That reaction is already gathering pace: more than 2,000 American scholars, including several Nobel Prize winners, have pledge to stay away from any event from which Israelis are excluded. Anthony Julius, a British lawyer and writer on anti-Semitism, has pledged to work with Mr Dershowitz in exposing an initiative which regarded Israel as “uniquely evil” and was reminiscent of medieval bigotry.

That may be overstated. But in Israel many academics, on both left and right, are as mystified as they are enraged. Israel at present has a centre-left government that proposes a two-state solution for the Palestine conflict. The Palestinians have voted into office an Islamist government under the Hamas movement that says it aims to end the existence of the Jewish state by a policy of armed struggle. By general consent, moreover, Israel's universities enjoy far greater academic freedom than any in the Middle East. Why, in these circumstances, should Israeli academics be shunned while those from the other side are welcomed?

Because the vote is perceived as a generalised attack on all Israeli academia, it has also created some embarrassment for Israeli scholars on the political left. Gary Sussman, a social scientist at Tel Aviv University, said that in the new climate created by the vote, charges that the Israeli peace movement is a “fifth column” would have greater credibility. Among supporters of a boycott, there were probably some who wanted to change Israeli policy, and end the occupation of the West Bank, while others were simply against the existence of a Jewish state, Mr Sussman says. The British vote had lent credibility to those who put all external critics of Israel in the second camp.

That is almost certainly true. The Anti-Defamation League, a movement which fights anti-Semitism, has placed some dramatic newspaper advertisements to underline its case that the singling out of Israel by British academia—at a time of terrible misdeeds in Darfur, Zimbabwe and Iran—can only reflect prejudice. Menachem Klein, a political scientist and veteran of Israeli-Palestinian peace initiatives, says academic boycotts are not always wrong—but Israel's misdeeds had not merited such a harsh response. The more venerable parts of the British academic establishment seem to agree: there have been condemnations of the UCU vote from the Royal Society, the Academy of Medical Sciences, and Universities UK, which groups all universities' vice-chancellors.

British supporters of a boycott cannot claim that they did not expect the swiftness of the reaction. In April Britain's National Union of Journalists voted in favour of a boycott of Israeli goods, by 66 to 54—as part of a protest against last year's war in Lebanon. Steven Weinberg, a Nobel laureate at the University of Texas, instantly dropped plans to visit London's Imperial College in July, saying it was “hard to find any explanation other than anti-Semitism” for the union's move.

In 2005 the College of Judea and Samaria—especially controversial because it occupies a hilltop in the West Bank settlement of Ariel—was one of the targets of a limited boycott move by Britain's Association of University Teachers, one of two unions which later merged to form the UCU. The Israeli authorities reacted by proposing to upgrade the status of the Ariel campus to a full university—and the British union reversed its decision.

But the British academics who have spearheaded the boycott campaign, citing a moral imperative to support their Palestinian colleagues on the hard-pressed campuses of the West Bank, are defiant. Hilary Rose, who with her husband Steven has been at the heart of the boycott movement for the past five years, sees positive results. One of these, she says, is the objections raised recently by some staff at the Hebrew University in Jerusalem to the appointment of a former chief of Shin Bet, the domestic intelligence service, Carmi Gillon: the objectors argued that such appointments would harm the image of Israeli academia at a sensitive time. Also encouraging, from her viewpoint, was the fact a group of Israeli academics were now calling for Palestinian students to have freer access to their universities.

Perhaps the British campaigners and Sari Nusseibeh, the Palestinian president of Al-Quds University in east Jerusalem, who has opposed academic boycotts, should don their tweed jackets and have a talk. The rights and wrongs look a bit less simple from close up in Jerusalem than from distant British common rooms.

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Loose nukes

Showing initiative

Jun 14th 2007
From The Economist print edition

Keeping one step ahead of the (really) bad guys

Get article background

EVER since the September 11th attacks, anti-terrorism officials and their governments have fretted that al-Qaeda's next spectacular could be the detonation of a nuclear device, or even a less powerful “dirty bomb” (using conventional explosives to disperse radioactive material). If that were to happen, asks Sam Nunn, an American ex-senator, what would governments wish they had done to prevent it? Efforts to avert such threats, and to help mitigate the consequences should prevention fail, brought officials from around 40 countries this week to Astana, capital of Kazakhstan, for a meeting of the Global Initiative to Combat Nuclear Terrorism. Two days of talks produced a ten-year action plan.

The aim is to build a framework in which countries can co-operate better on nuclear prevention, detection, protection and response. Workshops and exercises will share best practice in better accounting for and securing civilian nuclear materials and facilities (experience acquired in the ex-Soviet Union, using mostly funds chivvied out of America's Congress jointly by Mr Nunn and Senator Richard Lugar). Joint research should improve detection capabilities, and help track the source of any materials used in an attack. Better information sharing should help disrupt terrorist planning; governments will also be urged to beef up their laws so as to deny sanctuary to terrorist groups and to put a clamp on their finances. There will be work on coping with the aftermath of an attack.

Launched in July last year by George Bush and his Russian counterpart, Vladimir Putin, the idea started small: the G8 group of rich countries, plus Australia, China, Kazakhstan, Morocco and Turkey first met in October in Rabat and agreed a statement of principles. At a second conclave, in February in Ankara, they set up a brisk work programme and asked others to join. Now they are 50 in all. A recent catch was Pakistan, whose reputation needs sprucing up after the blackmarket antics of Abdul Qadeer Khan, a nuclear scientist.

Like the American-led Proliferation Security Initiative (PSI), which aims to disrupt the illicit shipment of weapons of mass destruction or materials to make them by countries like North Korea or Iran, the initiative to combat nuclear terrorism is to be an “activity not an organisation”. But with Russia and America sharing the lead this time, China was an early recruit (it refused to join PSI). All the better for attracting others.

Despite their other differences, America and Russia are both genuinely keen to co-operate in combating nuclear terrorism—and not just because both have been targets of terrorism. They also hope to profit commercially from the global resurgence of interest in civilian nuclear power. Before spreading nuclear materials to more countries, best to ensure they won't fall into the wrong hands. The terrorists, of course, have different plans.

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Fear of flying

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From The Economist print edition

Air travel is often nasty, brutish, long and unprofitable. But it need not be like that, says Paul Markillie (interviewed here)

Rex Features

AFTER flying in circles for nearly an hour, the British Airways pilot announced: “Ladies and gentlemen, I'm glad to say we can now stop contributing to the future generation of orange groves on the South Downs and start our approach to London Heathrow.”

It was a journey typical of what is good and bad about modern air travel. As many trips now do, it began on the internet. The web has made it possible for passengers to be their own travel agents by comparing fares and schedules and booking flights—and at prices much lower than a decade ago. The seat was also chosen online, the check-in completed and even the boarding pass printed out at home before leaving for the airport, avoiding the usual queue at the airline counter.

Not that it mattered, because there was another queue to be joined in a tent outside the terminal where it took an hour to reach the security checkpoint. There a mêlée of people were partially undressing, rummaging through their bags to remove laptop computers and mobile phones, and putting liquids and gels into small plastic bags. Unsurprisingly, the aircraft was late leaving the gate and then had to queue to reach the runway. The orange-grove-creating return journey was late because the aircraft had been late arriving. And the flight had to be “stacked” south of London because of congestion at Heathrow.

As air travellers' horror stories go, this is a mild one. But it is only too common. Flying is cheaper and easier to arrange than ever before, but it is also more hassle for the passenger. Once only the rich flew; now everyone can. And with a bit of flexibility it is possible to buy a seat at the back of an aeroplane for only one-tenth of what someone else is paying to sit at the front, going to the same place. The range of services available spans no-frills airlines that charge for every extra, including drinks and meals, to carriers with luxurious business and first-class cabins with complimentary champagne, massage and spacious sleeper seats.

Aggravating circumstances

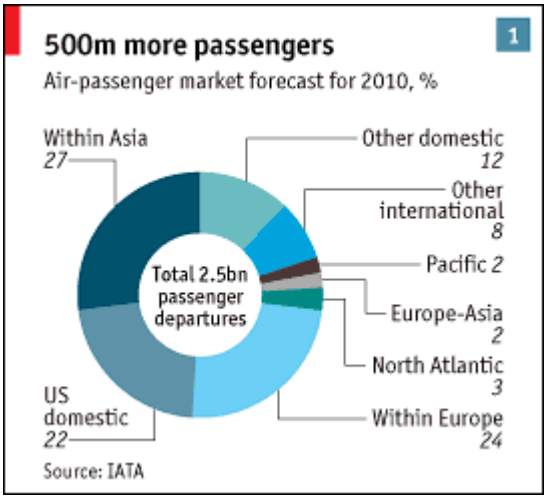
But whether in first class or economy, air travel often spells aggravation. During peak times many airports and airlines are now operating so close to capacity that bad weather or technical glitches can quickly create chaos. If they want to add runways and terminal buildings, airports must battle with local communities determined to stop them from expanding. Security checks have become more rigorous to counter the ubiquitous risk of terrorism. And then there is the question nagging at passengers' green

conscience: should they be flying at all? Aviation is a small but fast-growing contributor to the greenhouse gases responsible for climate change. All those delayed aircraft flying in circles over Britain's South Downs are adding needlessly to global warming.

What can be done about it? Expanding airports, especially in developed economies, will not become any easier—and even in some developing ones, such as India, where airports are close to bursting, building new ones is plagued with problems. Terrorism shows no sign of easing. And there is no prospect of any technological breakthroughs to make aviation dramatically more efficient and cleaner in the near future.

In some ways the industry is a victim of its own success. The trend in passenger numbers has been relentlessly upwards despite periodic slumps caused by economic downturns, oil shocks, wars and scares about the spread of diseases such as SARS. The terrorist attacks on America in September 2001 were followed by a steep decline in passengers, but within a year or so numbers had recovered. In 2006 people took just over 2 billion journeys on scheduled airlines worldwide, 4% up on the year before, according to the International Civil Aviation Organisation. Measured by kilometres travelled by passengers, traffic was up by around 5%.

By 2010 another 500m passengers are likely to join the fray (see chart 1), predicts the International Air Transport Association (IATA). The trade group, which represents some 250 of the world's airlines, estimates that by then America's domestic market for air travel—at present the largest in the world, with around 750m passengers a year—will have been overtaken by both Asia's and Europe's.

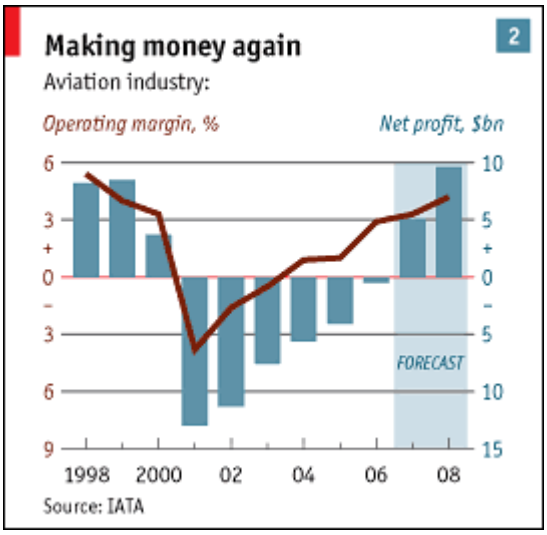


That does not mean America will get any less busy. “We believe we are going to have to handle between two and three times the traffic we have right now,” says Marion Blakey, head of the Federal Aviation Administration. “Congestion delays are beginning to cost enormous amounts of money.”

Most of the recent growth in air travel has been in the economy section, which reflects the emergence of low-cost airlines. In Europe, nearly a third of all short-haul seats are now provided by low-cost carriers. These carriers are widely believed to have been responsible for the growth in air travel, and they have certainly played their part, not least in forcing down the fares of established airlines. But studies show that the market would have grown anyway.

A report last year by Britain's Civil Aviation Authority found that overall growth in air travel has not been accelerating since the emergence of low-cost airlines in the early 1990s. Instead, they seem to have taken market share from other carriers, in particular the charter airlines that once dominated Europe's holiday routes. What really stimulates air travel, most experts agree, is not so much low fares (after all, travel invariably entails other expenses too) but growing prosperity.

Yet despite rising passenger numbers, and good returns for some carriers, many of the world's airlines are having a hard time of it. Since 2001 they have collectively lost more than $40 billion, mostly in America, where airlines have only just started to become profitable again. The industry is some $200 billion in debt.



Globally, IATA's members almost broke even last year and are expected to make a combined net profit of $5.1 billion this year—a net margin of just 1.1% on combined revenues of $473 billion (see chart 2). “It's peanuts,” declares Giovanni Bisignani, IATA's director-general. *Airline Business*, an industry publication, reckons that as a group the world's top 150 airlines, including some low-cost carriers that are not members of IATA, broke even in 2005.

Peanut counters

So why, in relatively good times, does the airline industry struggle even to cover the cost of its capital? Peanuts provide a clue. As the former boss of Italy's Alitalia, Mr Bisignani remembers the time when IATA was at the centre of the cartel of mostly state-backed airlines that ruled the skies. The cartel not only set fares and carved up routes among its members, but met in smoke-filled rooms to discuss things like the number of peanuts that should be offered to passengers.

Now many state airlines have been privatised. Even Italy's government is selling most of its stake in Alitalia. Many routes have been liberalised and access to airports opened up. A number of famous “flag carriers” have vanished, including PanAm, TWA, Sabena and even Swissair, once a byword for clockwork reliability. Successful airlines such as America's Southwest and new ones such as JetBlue have emerged. Dubai's Emirates is setting the pace in customer service. And Malaysia's AirAsia, the leading low-cost operator in that region, is about to usher in a new era of cheap long-haul services.

But these are exceptions. Too much of the air-travel business remains protected from genuine competition. That makes many airlines less fit than they should be, and more vulnerable when things get tough—as they may do if some big economies continue to slow. A few of the low-cost carriers in both America and Europe are already starting to feel the pinch.

The trouble with their product is that it is highly perishable: once an aeroplane takes off, the empty seats lose all value, so airlines need to do what they can to fill them. The average percentage of seats sold on each flight, known as the “load factor”, reached a record 76% for the world's airlines last year; in America it crept above 80%. This is good for airlines, but not so good for passengers. Now that the internet allows passengers to pick their own seats, a long-held belief in the travel industry has been confirmed: passengers generally prefer an empty seat next to them. But with load factors so high, there are not many of those going. Being stuck in the middle of a row of three or four people is the least popular of all, but it may be the only seat left.

Fuller aircraft bring other problems that annoy customers. Flights can be slower to board as passengers struggle to stow their carry-on bags, exacerbating delays. And average load factors of 80% mean that at peak times all the seats may be sold, making last-minute trips more difficult to arrange, no matter how much would-be passengers are prepared to pay. Airline reservation systems use “yield management” software to predict demand and extract the highest possible price for each seat, so fares go up if the plane looks like being fully booked.

A lot of effort is put into separating leisure travellers from business travellers, who are less concerned about fares. That explains the dreaded Saturday-night stopover requirement, designed to prevent business travellers—who may not want to spend a weekend away from home—from travelling on the cheap. Fares can change by the minute. The reservation systems are also programmed with seasonal information that can affect demand, such as school holidays or big sporting fixtures.

In short, airlines are perfectly capable of behaving competitively. They do not need to be hemmed in by government rules on where and when they can fly and who can own them. Yet many governments still see airlines as strategic assets which they want to prevent from falling into foreign hands for a variety of reasons—including having the aircraft available to carry troops in the event of a war (yes, they really say that). The result is an industry that is made up of a few high-flyers but also lots of also-rans and losers.

It need not be like that. Given greater freedom to compete, airlines could become more reliably profitable. That would enable them to invest in newer, more fuel-efficient aircraft, provide a better service, cut the queues and improve their environmental credentials. But that would require governments to stop intervening when the losers are in danger of going bust or being taken over. Some governments are already meddling less with their countries' airlines, but more freedom is needed—even in America, champion of free markets and home of commercial aviation.

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In the land of free flight

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America was the first to deregulate, but now it's snowed under

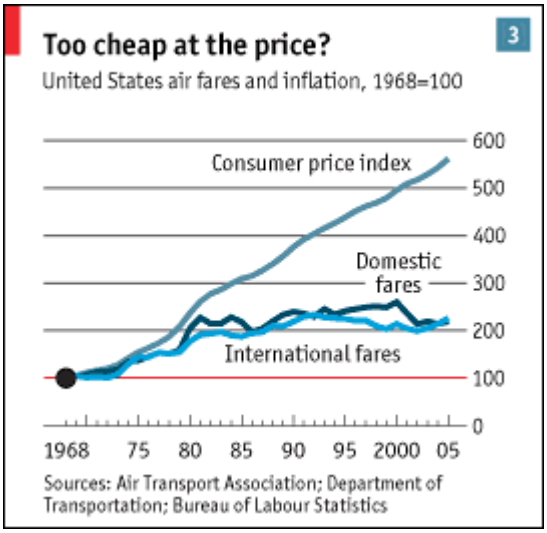
IT IS 7.30am at Los Angeles International Airport and several hundred people are queuing at United Airlines' do-it-yourself check-in machines. The machines work well enough, but many passengers have never used them before and others have questions about their flight. Only two attendants are present, putting labels onto suitcases. One of them explains that they can't help because they do not work for United, and suggests using one of the phones attached to the machines. A voice on the phone tells you that your call will be recorded for customer-service purposes. No one answers.

America's airlines are trying to claw their way out of hard times by making savings where they can. In the five years to 2005 they lost a cumulative $35 billion. The older “legacy” carriers, such as United, American Airlines and Continental, have been slashing costs and staff to compete with the newer discount operators, such as Southwest and JetBlue. In 2005 the number of airline jobs in America fell to its lowest level since 1995. In the intervening period the number of passengers has grown by 170m.

With an average of eight out of ten seats taken, flights are fuller than they were in the mid-1990s and airports are often congested. Although passenger numbers are growing, on the whole Americans are spending less on air travel. “Demand is there, but not at any price,” says John Heimlich, chief economist of the Air Transport Association, to which most American airlines belong.

In the two decades to 2000 the average annual revenue from passenger flights accounted for 0.95% of America's GDP. This began to decline even before September 11th 2001 and has now dropped to 0.73%. The difference, says Mr Heimlich, represents $32 billion a year in lost revenue.

There are a number of reasons why Americans are flying more but spending less on doing so. The main one is that flying has become cheaper. Since the deregulation of America's domestic airline market in 1978 fares have fallen by half in real terms. Some of them are now rising, but generally more slowly than the prices of other goods and services (see chart 3). Fares have been brought down chiefly by the arrival of low-cost and no-frills airlines, either directly or by putting pressure on established carriers.

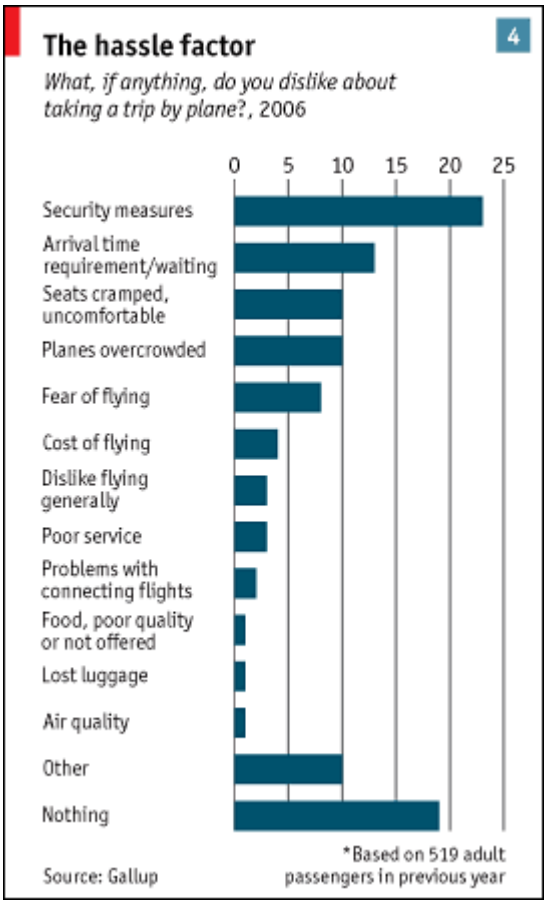


But there have been other factors too. Companies have cut back on travel and restricted the use of first class and business class. One first-class passenger can be worth three or four in economy, so cutbacks on corporate largesse have had a big effect on revenue. Airport hassle has also taken its toll, reckons Mr Heimlich. When Gallup, a polling organisation, asked Americans what they disliked about taking a trip by plane, the largest number of complaints by far was about their experience at the airport, including the inconvenience of security measures and having to arrive early and wait around (see chart 4). Problems with food, lost luggage or air quality in the cabin were the least of their concerns.

If it's broke, mend it

As travelling takes longer because of the extra time spent getting through airports, alternative forms of transport begin to look more attractive. Amtrak now competes comfortably with the airlines on its Boston-New York-Washington express rail service. But for many journeys in America there is no practical alternative to air travel.

So why have most American carriers lost money for the past 30 years? The industry is in “a complete state of disrepair”, says Bob Crandall, now retired as the boss of American Airlines but still a legend in the business. Never one to mince words, he has a ready culprit: “For the most part that is a function of deplorably bad government policy.”



According to Mr Crandall, there are three big problems. The first are American bankruptcy laws, which save airlines from folding. Some of America's biggest carriers, including Delta, Northwest, United and Continental, have at various times operated under the Chapter 11 bankruptcy code, which protects companies from creditors while they reorganise their operations and finances. Some airlines, including US Airways, have done so more than once. If airlines fail, says Mr Crandall, they should be broken up and their assets sold because allowing them to fly on drags down healthy competitors.

The second problem is stringent labour laws which allow trade unions to demand wages and conditions which are “out of sync with reality”. This is linked to the first problem, in that it is often only under Chapter 11 that some carriers have been able to trim their workforces and negotiate new contracts. Now that profits are returning, rifts with airline unions are opening up again.

The third problem, says Mr Crandall, is the government's failure to recognise “the importance of having a prosperous airline industry in the United States”. This, he maintains, has benefited foreign carriers.

Bankruptcy protection is all too familiar for those involved in airline financing and dealmaking. “It is massively time-consuming and diverts attention,” says John Pritchard of Holland & Knight, a New York law firm. Nevertheless, he says, Americans have come to expect airlines to keep their aircraft and remain in business even if they cannot pay their bills. As a lawyer involved in aircraft purchasing and repossession, he has seen aircraft ownership become divorced from airlines. Many aircraft are now bought by investment groups or leasing companies, including General Electric and ILFC, which is owned by the American insurance group AIG. They use their buying power to order large numbers of aeroplanes at a discount from manufacturers and then lease them to airlines.

America's carriers are now in a better position to rebuild their balance sheets and generate enough cashflow to both pay down debt and acquire new fleets. American Airlines, for one, is accelerating delivery of new Boeing 737s to start replacing its 300 MD-80s, which are on average 17 years old. The newest aircraft fleets in America tend to be operated by the low-cost airlines.

This opportunity may not last. In this notoriously cyclical business, Mr Pritchard is sure of one thing: another downturn will come along. Moreover, with the spread of liberalisation and the privatisation of state airlines, he thinks future downturns could spread more quickly to carriers around the world.

That could force more mergers. Despite constraints on airline takeovers, such as the limits on foreign ownership and the liberal use of bankruptcy laws, there is a long-term trend towards consolidation, says Philip Baggaley of Standard & Poor's, a credit-rating agency. No single airline accounts for more than a small proportion of the worldwide market. But Mr Baggaley is also cautious about mergers, pointing out the risks of trying to put together disparate businesses and working cultures.

Airlines vary greatly in what they do and how they do it. Standard & Poor's compared six global carriers from America, Europe and Asia and found big differences in competitiveness and profitability. Measured by costs per available seat-kilometre, American Airlines and United run significantly leaner operations than their international rivals. They also depend heavily on their domestic markets. British Airways and Lufthansa have the highest costs, but rely less on their domestic markets and have a larger share of lucrative business and first-class passengers.

Some European, Middle Eastern and Asian carriers do well on international routes with reputations for

high levels of service, especially in business and first-class cabins. But American Airlines' and United's convenient schedules and route networks, and especially their frequent-flyer programmes, ensure that they carry more American passengers overseas than rivals from other countries.

Mr Baggaley agrees that air travel will remain a cyclical business. There could be other external shocks, such as terrorism or a bird-flu pandemic. But there is one bit of cheer, at least for airlines: the supply of seats in the American domestic market is not likely to outpace demand, as it has done in previous up cycles. And as long as capacity remains tight, prices can be nudged higher.

Yet last winter showed how quickly customers will take offence when carriers put a foot wrong. When an ice storm hit the north-eastern United States in February, hundreds of flights were cancelled. But New York-based JetBlue, which has some of the highest customer-service ratings, wanted to keep its passengers happy by continuing to fly. It bet, wrongly, that there would be a break in the weather. Ten aircraft full of furious passengers were stuck on taxiways for about six hours. Afterwards it took days for the carrier to resume normal services because crews and aircraft were caught in the wrong places. David Neeleman, JetBlue's founder and chief executive at the time, said he was “humiliated and mortified”. The carrier subsequently introduced a “bill of rights” to establish compensation for passengers in the event of any future problems. In May Mr Neeleman stepped down.

Birds in the sky

Extreme weather is difficult for any airline to cope with, let alone a fast-growing carrier that is only eight years old. But at least it is rare, whereas delays attributed to air-traffic control congestion happen every day. The main elements of the American system date from its inception in the 1950s. It is organised around one-way “lanes” in the sky along which aircraft fly under radar control while communicating with air-traffic controllers. They navigate over fixed radio beacons on the ground. Many of these are in the same places where beacon fires were lit to guide the 1920s mail flights that pioneered commercial aviation.

America's air-traffic system will face a rise in the number of flights from 45,000 a day now to 61,000 by 2016, says the Air Transport Association. In the past it has been expanded by adding more equipment and hiring more controllers, but there is little scope left. The system itself needs replacing.

The industry would like to switch to a satellite-based navigation and surveillance system. The Next Generation Air Transportation System, as it is known, would bring together global-positioning satellites (GPS) and advanced avionics and communications technology. Among other things, this would allow pilots to communicate better with each other, see where their aircraft are in relation to each other far more accurately than with radar alone and navigate more precisely. More precise positioning of aircraft would mean that more of them could be accommodated in the same amount of airspace. Instead of following fixed points on the ground, pilots could plot more direct routes and so save fuel. There is little doubt in the industry that the technology is available, and that it can be made safe—even from terrorist interference. Indeed, most new aircraft are now being delivered with the necessary GPS gear already installed.

The difficult bit is paying for it. America's existing air-traffic control system is financed by a trust fund, mostly from passenger taxes. The authorisation for this fund expires in September this year. Such funding was fine when fares were regulated by governments and related to the distance travelled, but now fares are deregulated and the taxes paid on them bear little relation to the length of the flight or the cost of handling it.

Moreover, there has been a big increase in the use of private and executive aircraft, so airlines, which contribute more than 90% of the trust's income, now consume only two-thirds of its services, complains the Air Transport Association. It wants fees to be based on use, pointing out that the new technology makes it easy to work out the cost of handling each flight.

Reuters

The hazards of air-traffic control

There is support for such a system in Washington, DC. “The congestion and crowding we are seeing right now is a manifestation of the fact that policies, programmes and funding sources are not responsive to what we need today,” says Mary Peters, America's Secretary of Transportation. She believes that both airspace and airport capacity are best allocated and priced in a way that reflects their use.

Congress will have to approve the new funding system, but some lawmakers are not keen. Many represent America's legions of private pilots, who fear that user-based fees will cost them more. Others are worried about the loss of jobs when older air-traffic control centres are decommissioned. Still, pricing needs to be more closely related to the cost of using the system: “If I'm out there in a small business jet in a queue to land I could be holding back an airliner with 200 to 300 passengers on board,” explains Mrs Peters.

America is not alone in thinking about modernising air-traffic control systems and other aviation services. In some ways it is at a disadvantage: as a pioneer of the industry, it has ended up with some of the oldest infrastructure. By contrast, developing countries that are still building up their airline industry have an opportunity to leap straight to the latest technology.

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Ready for take-off

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From The Economist print edition

Asia is set to become the world's biggest air-travel market, but it will take time

FLYING over the roof of the world can be tricky. The mountainous Tibetan terrain is hazardous and the weather uncertain. There might be no radar coverage. But the GPS receivers on the Air China 757 fix the position of the aircraft to within a few metres as it begins its descent through a long valley, around an awkward ridge and down onto the new runway at Linzhi.

Alamy

Raring to go

According to Naverus, the Seattle-based firm that installed the Required Navigation Performance (RNP) system at Linzhi, conventional ground-based aids would not allow such precise navigation to the airport, which sits 9,670 feet above sea level. RNP combines the avionics in a modern jet airliner with GPS to guide pilots along a narrow path to the airport.

China is planning to install scores of such systems, not just where landings and take-offs are difficult but also at congested airports. The ability to navigate more precisely means more aircraft can be handled in the same amount of airspace, adding to capacity. Delays can also be reduced because more aircraft can land safely in bad weather instead of having to divert to another airport.

Other airports around the world are also installing RNP systems, but China has a particular need for them. Although it is a huge country, most of its airspace is still under military control. There are many areas were commercial aircraft are banned, sometimes at short notice because of air-force exercises. China's older air-traffic-control systems exacerbate the delays. Travellers in China are already getting fed up with airport queues and flight delays, just like those in America and Europe. And yet aviation in China has barely taken off.

Last year airline passengers took 179m trips in China (135m on domestic services and 44m on international ones). The government says the numbers are increasing by around 15% a year, with a huge boost expected next year because of the Beijing Olympic games. By 2010 they are likely to reach 270m—though that will still be only a third of America's total last year. Demand could be even higher if China's aviation industry is liberalised further.

China's Civil Aviation Administration says it will spend more than 140 billion yuan ($17 billion) in the next three years on building more than 42 new airports and upgrading others. Yet China will still end up with only around 200 commercial airports, compared with some 20,000 (including many small ones) in America, which has barely one-quarter of China's population. With increasing wealth and growing demand for travel—and not just within the mainland—the potential for China's aviation market is huge.

Satellite navigation is not the only new technology of interest to China. Busy airports often owe their success to their proximity to large population centres. New airports, however, are unlikely to be built just a short cab ride away from the centre of town. So better ground transport is required, along the lines of

the 430kph (268mph) maglev trains that link Shanghai to Pudong International Airport.

China leads the world in the introduction of electronic ticketing, which offers huge savings. Last year 95% of tickets issued in the country were electronic, up from 10% in 2005. Globally the proportion is around 80%, though airlines hope to move to all-electronic tickets before long. But some countries are reluctant to change.

China is also investing heavily in new aircraft. Officials say that mainland carriers plan to double the size of their fleets to a total of more than 1,500 aircraft by 2010, reaching 4,000 aircraft by 2025. China already builds some small regional airliners and has announced plans to challenge Boeing and Airbus in the market for big jets by 2020.

Elephants do fly

India is a lot further behind, with some 50m passengers last year (26m on domestic services and 24m on international flights), but traffic has recently been growing at a whopping 30% a year. Since 2003, when India's popular low-cost carrier, Air Deccan, was launched, a dozen or so budget airlines have sprung up, taking away a lot of business from the services operated by the state-owned domestic airline, Indian. But competition is fierce and many of the new carriers are making losses. The idea is that profits will flow once Indians start to travel more: passenger numbers are expected to grow to some 200m by 2020.

Indian is now merging with Air India, the state-owned international carrier. The country's new carriers also have big ambitions. Kingfisher Airlines, which is owned by the UB group, a big drinks company, is buying part of Air Deccan. Kingfisher was launched only two years ago and already has five of the giant new double-deck Airbus A380s on order. It plans to launch international services, but that will require patience. When watching the first A380 demonstrator land at New Delhi's airport earlier this year, Vijay Mallya, the boss of the UB group, complained that it was “completely outrageous” for the Indian government to go on insisting that new carriers must have completed five years of domestic operations before they can be allowed to fly abroad.

Low-cost airlines are emerging all over Asia, which will contribute to making it the world's biggest air-travel market. Low-cost carriers now account for some 10% of airline capacity in the region, up from just 1% six years ago, according to the Centre for Asia Pacific Aviation, a consultancy. It says they are catalysts of change in a part of the world where air travel has been heavily regulated and airlines have mostly been government-backed flag-carriers.

One such new airline is Malaysia's AirAsia, a budget airline based in Kuala Lumpur that operates from a specially designed low-cost terminal. It started flying in December 2001 and now serves more than 40 destinations in South-East Asia and China. Tony Fernandes, its chief executive, is starting up a separate airline to operate long-haul low-cost flights. He has ordered a new fleet of Airbuses and is fitting them with extra seats. The first services are due to begin in September.

Another low-cost start-up, Oasis Hong Kong Airlines, has also begun a service to London and is planning to launch services to Oakland, across the bay from San Francisco, and Vancouver. The idea of taking the low-cost model long-haul is gaining ground in Europe too. Michael O'Leary, the chief executive of Ryanair, an Irish budget carrier, is planning to set up a long-haul operation that would be run as a separate company.

The reason for keeping the two businesses apart is that long-haul and short-haul operations are widely thought to require different business models. “Long-haul flying is inherently time-consuming and tiresome,” says Stelios Haji-Ioannou, the founder of Britain's easyJet. “It is not likely to be an impulse purchase.” Some passengers are prepared to pay extra to travel in more comfort on long flights. And the business is more complicated: you need to offer meals and refreshments (even if you sell them to passengers), provide on-board entertainment, have extra crew on board and keep crew overseas.

It was because the big airlines were trying to serve two markets with the same business model that short-haul flying ended up more expensive and complicated than it needed to be, says Sir Stelios, who was knighted last year. When easyJet got going it had a 50% cost advantage over British Airways on short-haul routes.

The Centre for Asia Pacific Aviation also reckons that long-haul low-cost carriers may not be able to reap the same level of savings as short-haul ones, but nevertheless thinks they could make a difference. If the

model that is emerging in Asia works, it expects to see a rush of imitators on international routes.

This would add fuel to the demand for new aircraft. Thanks to the massive growth in air travel throughout Asia, the region already accounts for the lion's share of new aircraft orders. Its aircraft, at around ten years, are also two years younger than the global average. Some of the long-established carriers in the United States have aircraft more than 20 years old in their fleets. In general, it is the low-cost operators in America, Europe and Asia that have the youngest fleets.

But one long-serving Asian airline, Singapore Airlines, has for decades maintained one of the youngest aircraft fleets in the industry to compete at the premium end of the travel market. Its average fleet age has crept up a bit lately, to just over six years, but only because its new Airbus A380s have run into production problems. It hopes to start operating the first of these aircraft to Sydney and London this autumn. Although they can seat 550 people in three classes, the airline is configuring its A380s to carry 480 people in order to provide more space in its premium cabins.

Singapore Girl, continued

There are two big advantages in having a young fleet. The first is that passengers clearly prefer new jets equipped with the latest facilities, says Stephen Forshaw of Singapore Airlines. The second is that a younger fleet offers greater engineering efficiency. Like new cars, new aircraft need less maintenance. This will allow Singapore Airlines to operate each of its jets for some 14 hours a day this year, at least two hours longer than some of its long-haul rivals, so it needs fewer of them than a carrier trying to serve the same routes with older planes.

It helps to be highly profitable. Singapore Airlines pays cash for its aircraft and sells them while they are still young enough to command a good price in the second-hand market, at around ten years. If well maintained, modern jets have a safe working life of some 30 years, but older planes will inevitably be less fuel-efficient than the latest models.

The big A380s will also help Singapore Airlines solve another problem: capacity constraints. At present the airline operates three flights a day to London using Boeing 747s. It could fill four, but getting suitable landing and take-off slots at Heathrow airport is almost impossible. Three A380s on the route will give it the same capacity as four 747s, at a lower cost.

Singapore Airlines is one of the lucky ones. Many other carriers are simply unable to offer any kind of service to and from big, busy airports like Heathrow because they cannot get any slots.

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The battle of the North Atlantic

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From The Economist print edition

Europe is allowing more competition, but dogfights continue

DRESSED in a pilot's uniform, Richard Branson waves from the steps of the leased Boeing 747 he has named “Maiden Voyager”. The date is June 22nd 1984 and celebrities, journalists and a handful of bemused fare-paying passengers pile on board for the inaugural flight from Gatwick airport, south of London, to Newark, which most knew was somewhere near New York City. But how to get from Newark to Manhattan? Some 1,000 bottles of champagne later, no one cared.

At the time, the launch of Virgin Atlantic was widely seen as a foolhardy venture by the young owner of a record label. The North Atlantic, although the busiest air route in the world, was guarded by pterodactyls: the big, established carriers which had made it a graveyard for the earliest budget airlines, including Laker Airways and later PEOPLExpress.

But Virgin Atlantic survived. It fought predatory fare cuts and other tactics its competitors used to undermine it. It also innovated with new levels of service, including “Upper Class”, a first-class section at business-class prices, and sophisticated in-flight entertainment, even in the economy section, which Sir Richard, as he became, was persuaded not to call “riff-raff”. Gatwick and Newark have since turned into well-known international airports, but Virgin also went on to launch services from its rivals' citadels of power, London's Heathrow and New York's JFK airports. Virgin now has a young fleet of 37 aircraft and from later this year will be flying to some 30 destinations around the world. In 1999 Sir Richard sold 49% of his creation to Singapore Airlines.

Carriers use minority shareholdings, alliances and “code-sharing” (where two airlines use the same flight, each badging it as their own) to get round the national restrictions preventing mergers and acquisitions. Truly global airlines are getting closer, but it is taking a painfully long time because of the industry's natural instincts towards protectionism and the reluctance of some governments to treat airlines like any other business.

Even Virgin Atlantic seemed more like an establishment carrier when it joined British Airways earlier this year in objecting to an “open skies” accord between the United States and the European Union. Under the existing treaty between America and Britain, only these two British carriers and two American counterparts, American Airlines and United, are allowed to fly between Heathrow and American cities. Heathrow is the busiest airport in the world and many of its almost 70m passengers a year are in transit, which means that carriers operating North Atlantic services from there can pick up large amounts of additional traffic. British Airways earns more than half its operating profits from flights crossing the Atlantic.

Slightly more open skies

The deal between America and the EU is supposed to open up Europe's airports to greater competition in March 2008 by allowing airlines from both sides to fly to and from any destination in Europe or America. But the Heathrow-based carriers fret that America seems in no hurry to go along with the EU's additional goal of having no restrictions on airline ownership or control. Some European airlines would like their own American operations. Sir Richard, for one, won permission in May to launch Virgin America, a San Francisco-based domestic carrier, after an 18-month struggle during which levels of foreign investment had to be reduced. Further talks on the thorny issue of ownership are due to be held later.

Yet the prospect of change is already starting to shake up Europe's airline industry. Many European carriers are considering setting up operations in cities other than their home base. Interest in mergers has grown too: Texas Pacific Group, a giant private-equity firm, has launched a bid for Spain's Iberia, in partnership with British Airways. Alitalia has attracted several bids, including one from Russia's Aeroflot. Private-equity groups do not seem to be put off by the industry's already high levels of debt and its cyclical nature. More countries have come to realise that they do not need to own airlines to encourage

air services. However, there will have to be many more privatisations before the air-travel industry flies completely free.

With the emergence of long-haul low-cost carriers and a new breed of business-class-only services, competition on the North Atlantic routes is also getting hotter. The idea of equipping a jet with luxurious seats and providing extra services for business people is not new. The original concept of what eventually became Virgin Atlantic was very similar. In 1987 Kirk Kerkorian, an entrepreneur, set up a premium service flying between Los Angeles and New York, but it did not get enough passengers and was eventually sold.

Various business-class-only operators have recently entered the market. Germany's Lufthansa offers a transatlantic service called Business Jet. L'Avion, a French start-up, launched a service between Paris and New York in January. Several operators have begun flying between London airports and America, including Maxjet, Silverjet and Eos Airlines. Some operate from special terminals or executive-jet centres to make the experience more pleasant for the 50 or so passengers they carry on each flight. Some also provide limousine and helicopter transfers. Both British Airways and Virgin are now planning their own business-class-only services.

Corbis

Branson class

How will they fare? The business case for such services has been strengthened by increasingly congested airports, more security checks and more flight delays. On multi-class airlines, business travellers find that although they can escape to executive lounges and bypass some of the queues, their flights can still be delayed because other passengers remain stuck in queues or linger in the duty-free shops.

The idea of business-class-only services is to “take away the painful part of travel”, says Jack Williams, chief executive of New York-based Eos Airlines, which lays claim to being the most punctual airline flying between New York and London last year. Being on time helps, but many business travellers also want frequent services in case their schedules change. In April Eos increased its service to three flights a day during peak periods.

No place to land

One of the biggest problems any airline faces in launching a new service is obtaining landing and take-off slots, especially at the most popular airports. The traditional method of allocating slots involves a scheduling committee made up of airport and airline officials. At Europe's busiest airports runway slots are administered by an independent slot co-ordinator. In America some trading of slots is allowed. The new open-skies agreement between America and the EU is supposed to let more carriers into more airports, but that is not how it works on the ground.

The slot co-ordinator for Heathrow, for instance, says demand already far outstrips supply. Incumbent operators claim “grandfather rights” over 97% of all slots, and most of those left are at times unsuitable for transatlantic services. Even when Heathrow's long-awaited new Terminal 5 opens next year, runway capacity will remain restricted. But it is possible to exchange slots among airlines. That has created a grey market at Heathrow in which swaps are usually accompanied by undisclosed payments.

London Heathrow and Gatwick, Paris Orly, Frankfurt, Dusseldorf and Milan Linate are already desperately short of capacity. By 2010 another 15 or so European airports will have joined them. Britain's Civil Aviation Authority, among others, thinks slots should be auctioned to airlines and then traded in a transparent secondary market to encourage better utilisation of a scarce resource.

For now, given enough patience—and the wherewithal to stump up £10m or so—an airline might be able to obtain a pair of reasonable take-off and landing slots at Heathrow under the existing system. But it would have to repeat the trick on the other side of the Atlantic.

“Demand right now is overwhelming,” says William DeCota, aviation director of the Port Authority of New York and New Jersey. With three big airports, JFK, La Guardia and Newark, all within 25 miles of the Statue of Liberty, this is one of the busiest airport systems in the world. Those three airports already

handle just over 100m passengers a year, a total forecast to rise to 125m or even 150m by 2015. But the amount of airspace is fixed and there is little room to expand on the ground—even if local neighbourhoods were willing, which almost invariably they are not.

Yet, says Mr DeCota, “we are convinced we can make much more efficient use of the ground and air.” This includes the use of bigger aircraft. Even though many flights are full, the average number of passengers on each aircraft using LaGuardia, the airport closest to downtown Manhattan, is only 68. The aircraft are too small, and there is little incentive for airlines to bring in bigger, more modern ones, says Mr DeCota, because “I can't price the airfield to encourage efficiency.” What he would like is a combination of market mechanisms and efficiency rules, such as that carriers must use their departure gates at least once every hour—or make them available to another carrier.

But it is not just the commercial airlines that need to be accommodated. America alone has some 500,000 private pilots. And a growing number of well-heeled business people and celebrities like to go exactly where they want, when they want, in their executive jets.

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Fly me home, James

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Travelling in an executive jet is just the ticket

BEING able to park directly outside the swooping modern building that serves as the passenger terminal at Farnborough Airport is the first sign that this journey is going to be different. The airfield, less than an hour's drive west of London, is home to Britain's biannual airshow. But it has also become a thriving executive-jet centre.

In the airy interior a famous French actor is having coffee with three companions before returning to Paris. No one asks for autographs here. A dapper German businessman arrives on an inbound flight and is met by his chauffeur. Security for your outgoing flight is discreet. The pilot introduces himself and explains the route. The weather forecast is good; there will be no delays. Within minutes of strapping yourself into one of the leather seats in the narrow fuselage, your Learjet is zipping along the runway and up into the air.

Flying in an executive jet used to be the preserve of millionaires with their own aircraft, tycoons who ran their own businesses or company bosses prepared to justify the use of corporate aircraft to sceptical shareholders. Even Warren Buffett, a famous investor and one of the world's richest men, once complained about the cost of his corporate jet, which he nicknamed “The Indefensible”. But then he went on to buy Netjets, the pioneer of “fractional” ownership, a sort of time-share for aircraft. Other schemes to share the cost of owning, chartering and renting executive jets have since sprung up.

One popular method is the jet card. This is the equivalent of a debit card which can be used to pay for a set number of hours in the air. Bombardier Skyjet International sells jet cards in Europe, starting at around €123,750 ($167,700), which buys 25 hours in one of Bombardier's smaller Learjet 31/40 models. With a range of 3,300km (2,050 miles) and a speed of just over 460 knots (530mph), the aircraft can seat up to six passengers. You would get, say, eight return trips from Farnborough to Frankfurt at just over €2,500 per passenger—provided you filled all the seats.

But the average number of passengers on executive jets in Europe is just two, which goes to show that users value exclusivity. Judith Moreton, managing director of Skyjet International, says it is pointless comparing the cost of travelling on an executive jet with that on a scheduled carrier because they are quite different journeys. With your own aeroplane you fly where and when you want to, often to and from airfields that are not served by airlines.

Indeed, avoiding airlines has become the main reason why people consider using private aircraft, says Michael Riegel, an executive-jet consultant and publisher of *Fractional Insider*, a newsletter. What lies behind it is that companies are starting to attach more value to the time their senior employees have to spend travelling.

If an executive fails to arrive in time for a crucial meeting, for instance, this will disrupt the work of a large number of people and perhaps even the outcome of an important deal. Long journeys and overnight stops may be unavoidable because nowadays many air trips, especially in the United States, involve passing through big hub airports and catching connecting flights. “People are finding it more and more frustrating to get from A to B, not least because the hub-and-spoke system breaks down very quickly,” says Mr Riegel.

One of the biggest users of private aircraft in America is Wal-Mart, a giant supermarket chain with a reputation for corporate frugality. With some 6,500 stores worldwide, its executives have lots of places to visit but find it hard to get there from their base in Bentonville, Arkansas. In Europe, too, executive aircraft are being used more often, but in Asia, and especially in China, they remain something of a rarity. Often that is because of a lack of general-aviation facilities.

Many company-owned aircraft are made available to rental firms to help defray the cost. Even the smallest jet can carry a price ticket of around $8m. If you want something that can cross the Atlantic,

like a Gulfstream or a Bombardier Global Express, it will cost you close to $50m. If you are rich enough you can even buy an executive Boeing 747, complete with gold taps and jacuzzis, which could set you back more than $200m.

The next small thing

Now a new category of private jet, known as a Very Light Jet (VLJ), is emerging, made possible by advances in aerospace engineering, especially in the use of extremely strong but very light carbon composites. These mini-jets will slash operating costs. Many are being ordered by private pilots for their own use. The smallest, an Eclipse 500, can seat up to four passengers and costs around $1.5m.

A number of traditional producers are developing VLJs, including America's Cessna and Brazil's Embraer. New manufacturers are also piling in. Vern Raburn, a former Microsoft executive, has set up Eclipse Aviation in Albuquerque to make the Eclipse 500. In North Carolina, Michimasa Fujino, an executive with Honda, says he is taking “our dream from the drawing board to the sky”. The Japanese carmaker has long harboured ambitions to launch itself into aerospace. Its new HondaJet will be one of the fastest VLJs, with a cruise speed of 420 knots and space for up to six passengers. At just over $3.6m, it will also be one of the priciest.

Honda says that by the start of this year it had received more than 100 orders—even though deliveries are not due to begin until 2010. Eclipse Aviation has already started delivering aircraft and says it could eventually make about 1,000 a year. Its biggest customer is Ed Iacobucci, who like Mr Raburn is a technology entrepreneur with a passion for flying. He has ordered more than 300.

Mr Iacobucci reckons the economics of VLJs will allow a new form of air travel which he calls “per-seat on-demand”. His company, DayJet, will begin operations in Florida this summer and then expand throughout the south-eastern United States. DayJet aims to serve smaller cities and communities where travelling a few hundred miles for a two-hour meeting can take two days out of an executive's week. There may be no direct air services, only connecting flights through distant hub airports, and the only other way to get there may be a long drive. Either way the traveller will need to stay overnight.

Customers on DayJet will book online, but there are no schedules. They will pick the place they want to go from, where they want to go, the date of travel and the time they want to arrive. They will also be asked how far in advance they are prepared to travel. The more flexibility they can offer, the lower the fare, which Mr Iacobucci says could be much the same as the price of a standard economy flight plus a night in a hotel. Powerful computers and sophisticated software co-ordinate the flights to meet all the passengers' requirements. The time of departure is finalised the day before travel.

If there are thousands of these little aircraft buzzing around in the sky, will they terminally clog up air-traffic-control systems? “We don't have any doubt we can accommodate them,” says the Federal Aviation Administration's boss, Ms Blakey. “The real question is where are they going to land and how much of that is in congested airspace?” If VLJs are mostly confined to the large number of underused airports and airfields in America, Ms Blakey believes they will provide valuable growth opportunities.

Who needs pilots?

Now flying machines even smaller than VLJs are sneaking into the air: Unmanned Aerial Vehicles (UAVs), sometimes called drones. So far they are being used mainly by the armed forces, but civilian versions are emerging. These are likely to be used by the police, for instance, and for commercial applications such as aerial surveying. In the near future UAVs could replace the “eye-in-the-sky” helicopters used by local television stations to report on news and traffic conditions.

The idea of “piloting” aircraft automatically from a control room on the ground or even from another aircraft could be extended to larger planes. The avionics on a modern airliner are already capable of flying it for most of its journey with the autopilot switched on. Last year, as part of a military exercise, the pilot of an RAF Tornado fighter remotely flew a small airliner over south-west England (with a pilot on board, just in case). Work is also being done on ground-based systems that could take over the controls of an airliner and land it safely if the crew were to become incapacitated in some way or the flight were hijacked. Most of the security effort is put into preventing aircraft from being attacked (see article).

In theory low-cost airlines could save money by dispensing with the co-pilot or even flying their aircraft entirely by remote control. After all, the flight engineer, who used to sit in the cockpit with the two pilots, has already been replaced by a computer. But the flying public may not be ready for such a radical innovation. “If Boeing came to us and said you can fire all your pilots because we have a plane that can fly itself, do you think passengers would get on it?” asks easyJet's Sir Stelios. “I don't think so. Two pilots provide confidence because they check each other.” Still, there are plenty of other new technologies for airline bosses to engage with.

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Watch that twitch

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How airport security identifies suspicious characters

WHEN in August last year Britain's security services uncovered an alleged plot to smuggle the liquid components of a bomb onto an aircraft at Heathrow, the world's busiest international airport almost ground to a halt as additional passenger checks were ordered. It was not just flights starting from Heathrow that were delayed or cancelled, but many incoming services too. In the following days British Airways alone cut more than 1,200 flights.

There seemed to be total confusion. Could mothers take baby milk on board? Should medicines be put into checked baggage? Had duty-free been banned? And what about people arriving on connecting services from airports where no such checks were being carried out? Rules appeared to change by the hour.

“That sort of confusion can cause passengers not to want to fly with us any more,” says Georgina Graham, IATA's head of security. She thinks the industry has begun to co-ordinate better, but wants more to be done. Rules still vary in different parts of the world, leaving passengers puzzled.

Intelligence to prevent attacks is part of what experts call a “layered” security approach. Other layers include checking identities, scanning people and their luggage and searching them at random. Another and increasingly important one is to see how they behave. “There are identifiers of people who have hostile intent that you can pick up,” says Kip Hawley, the head of America's Transportation Security Administration. “Our testing indicates an extraordinary high degree of success.” This is not the same as building profiles of possible suspects and looking out for those sorts of people. “It doesn't do any good to say, ‘this is what I think a terrorist looks like and I think I'm going to frisk him,’” he explains.

Security officials with the Israeli airline El Al already spend a long time questioning passengers in order to identify behavioural traits that mark them out as dangerous. But El Al is small and America's airports would grind to a halt if such time-consuming procedures were adopted everywhere. So the system that will emerge in America is likely to involve pre-screening of passengers right from the time they make their reservation.

Then, as they go through the different layers of security at the airport, some passengers will be asked questions by specially trained staff who are looking out for things like involuntary facial-muscle movements. A twitch is impossible to hide. “The more you try to avoid it, the more pronounced it becomes,” says Mr Hawley. Eventually, he thinks, the analysis and interpretation of passengers' behaviour will be aided by machines.

Machines used to scan luggage at airports are getting more powerful too. Instead of just alerting staff to suspicious images, newer scanners will be able to work out what they show. New biometric passports, which contain details such as finger prints and iris scans, will also improve identification. A company called Clear is operating a registered-traveller programme at a growing number of American airports. For an annual fee of $99.95 it will issue a biometric identity card to people who pass government background checks, entitling the holders to use fast lanes at security checkpoints.

But Mr Hawley insists that security measures should not rely solely on machines, however sophisticated, because threats change. It will take a combination of science and technology, he reckons, to reduce the hassle involved in passing through airports. That may make them safer, too: “You want it to be as smooth a process as possible, because then the abnormalities pop out.”

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Travelling green tonight

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Aircraft are getting cleaner all the time

AUGUST 2010. The flight from Shanghai will be landing at Toronto in two hours' time and the cabin crew have switched on dawn. No more rude awakenings from a blast of sunlight as the plastic blinds are yanked up. Over the next 20 minutes light-emitting diodes slowly illuminate the ceiling with a soft blue hue. The large electronically darkened windows also start to brighten.

The passengers have probably slept fairly well too. There is less of that dry, wrung-out feeling often associated with long flights because the air in this plane is less arid and the pressure is higher. The carbon offsets for this trip are also lower because the aircraft is using 20% less fuel than other jets and emitting correspondingly less CO_2. Welcome on board the new Boeing 787 Dreamliner.

With half its primary structure, including the fuselage and wings, made from composites, the 787 is much lighter than any metal aircraft of similar size. That not only saves fuel but allows other improvements. For example, the air is nicer to breathe. Airliners have to be pressurised when flying above 10,000 feet because oxygen levels drop dangerously low. At cruising height, usually around 35,000 feet, cabin pressure in most aircraft is kept at the equivalent of around 8,200 feet (about the same as Mexico City) because maintaining a higher pressure in a conventional aircraft might accelerate metal fatigue. To add to passengers' discomfort, the air is kept as dry as possible because moisture causes metal to corrode. But the 787 is pressurised at the equivalent of 6,000 feet and the air can be kept less dry because the composites are stronger than metal and unaffected by moisture.

The first 787 is due to enter service next year. With 200-300 seats and a range of over 8,500 miles, it allows airlines to offer long, direct flights that might otherwise have gone to hub airports for connecting services. So Boeing is pursuing the opposite strategy to its rival Airbus, whose enormous new A380s will be able to carry twice as many people as the 787s, making hub operations even more efficient.

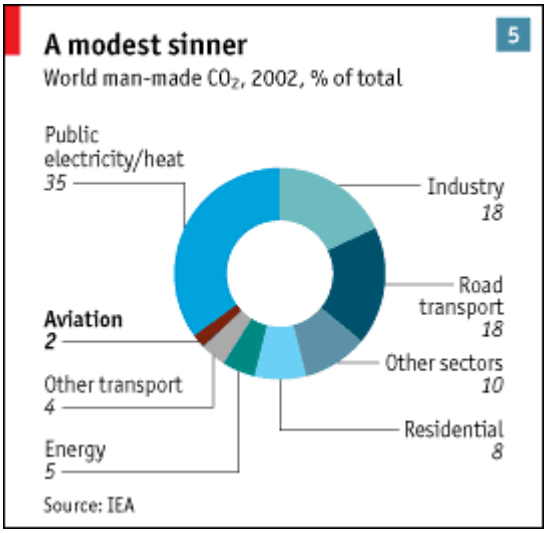
“If you fly a big aeroplane into a hub you have got to fly a lot of little aeroplanes into that hub to take people to where they want to go,” says Scott Carson, the head of Boeing Commercial Aircraft. True, but as Singapore Airlines calculates, three A380s can also do the work of four Boeing 747s on its busy flights to Heathrow. In fact, both new aircraft will find the markets to which they are best suited. The real battle between Airbus and Boeing is over which market will prove bigger.

Every new aircraft improves on the generation before it, thanks to a combination of new engines, better materials and more efficient flight systems and aerodynamics. Individually, those gains are often relatively small. The tiny winglets that now appear on the tip of aircraft wings, for instance, can produce fuel savings of perhaps 3% by improving aerodynamic efficiency. And instead of using the engine to pump air into the cabin mechanically, the 787's engines power electric pumps, offering further fuel savings.

These incremental improvements add up. Even a 1% saving can represent hundreds of tonnes of fuel a year for the average airline, and a similar reduction in emissions. Every tonne of fuel burnt by a jet aeroplane produces 3.2 tonnes of carbon dioxide. It takes roughly 80 tonnes of fuel to fly even the least thirsty airliner from London to New York and back again.

Depending on the measurement used, aviation is responsible for some 2-3% of total man-made CO_2 emissions (see chart 5). As air travel grows, this figure is expected to rise rapidly. A report on the economics of climate change by Britain's Sir Nicholas Stern says CO_2 emissions from aircraft could more than triple by 2050, making flying one of the fastest-growing producers of the greenhouse gas.

But the impact of air travel on climate change could be even greater than such figures suggest because of other emissions by aircraft, such as nitrogen oxides (NOX), soot and water vapour, which can form condensation trails and cirrus clouds. Scientists disagree about the exact role of some of these other emissions at high altitudes. The Stern report concluded that they might double the warming effects of the CO_2.



Aircraft emissions could be limited by restricting flying. That could be achieved by imposing higher taxes because a large part of the market (mostly leisure) is price-sensitive. Many environmentalists think this will become necessary. A report last year by the Environmental Change Institute at Oxford University predicted that aviation would consume such a large proportion of Britain's carbon-emissions budget that the government would have to curb growth in air travel. It acknowledged the industry's efforts to make aircraft more fuel-efficient, but was sceptical about the scope for future improvements.

Many in the industry, however, are convinced that by using more sophisticated technology and more efficient operating procedures they can make air travel a lot cleaner still. Not unreasonably, they also point to the huge economic benefits that airports and airlines bring and that harsher taxation might scupper. Some studies suggest that aviation may account for as much as 8% of global GDP when you allow for tourism, which is possibly the world's biggest industry, and air cargo, which is now responsible for some 40% of inter-regional exports by value. “People don't want to fly less, they want to fly more,” says Andreas Hardeman, IATA's environment manager.

Try trading

Because there is often little alternative to flying—and in the immediate future little alternative to jet aircraft fuelled by some form of kerosene—aviation is one of the most costly areas in which to cut CO_2 emissions, says Brian Pearce, IATA's chief economist. Emissions trading is a possibility, but IATA has a number of reservations about how it might work. It wants an open and global system so that airlines can trade permits to emit carbon with industries that can achieve reductions in more cost-effective ways, such as factories or power stations anywhere in the world.

The International Civil Aviation Organisation (ICAO), a UN agency, has drawn up guidelines for a global emissions-trading scheme which are due to be considered later this year. But the European Commission is already set to introduce its own version in 2011 to cover all EU-based carriers. Airlines would initially be given some 90% of their carbon permits free but would have to buy the remainder. Some experts reckon this could add about €40 ($54) to the price of a long-haul flight.

The EU had intended to apply its scheme to all carriers whose flights arrive and depart in Europe, but faced a storm of protest from other countries. “This is a global problem and needs to be solved on a global basis,” says Andrew Steinberg, assistant secretary for aviation and international affairs at the US Department of Transportation. “We don't support the idea of bypassing the ICAO and unilaterally imposing a scheme that the rest of the world doesn't agree with.”

The commission has now decided to wait until 2013 before extending its emissions-trading scheme to non-EU airlines, by which time the ICAO may have reached a consensus among its members. Mr Steinberg says that in principle America has no objection to a market-based approach to reducing aircraft emissions, but points out that “airlines already have every reason in the world to reduce their fuel consumption.”

Fuel prices have doubled in recent years. Depending on where airlines are based, fuel can account for 10-30% of operating costs. “If we reduce the amount of fuel that is used, we're making the best step we can,” says Billy Glover, Boeing's head of environmental strategy. “It's the closest thing to a silver bullet.”

Aircraft have already become a lot more efficient and cleaner. “People might think that because the aeroplanes they see today generally have a similar shape to those of ten or 20 years ago, nothing has changed,” adds Mr Glover. “But change has been dramatic.”

Flying a given number of passengers over a given distance today takes less than 70% of the fuel it would have done 40 years ago. In part that is because early jet-powered aircraft guzzled fuel, even compared with the propeller-driven planes they replaced. But jet engines have also evolved a lot (see chart 6). The most obvious difference is that they have become bigger to accommodate larger fans. These move a larger volume of air more slowly but more efficiently and less noisily. They also produce a lot less smoke and soot.

Cutting down NOX emissions, however, has proved difficult. They are, in effect, produced by frying air, and the higher operating temperatures needed for more efficient combustion can produce more of them. Since 2000, however, engine manufactures have been getting better at reducing these emissions too. Rolls-Royce's new Trent 1000, for instance, produces 40% less NOX than previous engines.

So what more could the industry do to save fuel? One step could be to remove the cover around the jet engine completely so that the fan blades powered by the jet turbine look like lots of propeller blades. So-called unducted-fan engines, in which the jet drives a ring of blades, were tested in the 1980s. General Electric fitted one to an MD-80 airliner, but they were not considered commercially viable.

New designs might solve some of the problems. Although such engines may be a little slower than conventional enclosed jets, they could provide a huge fuel saving, perhaps as much as 15%. That could make them an excellent choice for the next generation of short-haul airliners, which are widely used by low-cost operators and make up a large proportion of airline fleets.

Alternative fuels are another possibility. Biofuels, for instance, can be blended with jet fuel. Being made from plants, they are supposed to be carbon-neutral (the carbon emitted was absorbed from the atmosphere while the plants grew). But some studies cast doubt on the gains after allowing for land use and other factors. Biofuels might also have drawbacks such as gumming up gas turbines unless kept at the right temperature.

Electric aircraft would be cleaner. Fuel cells could be used more widely to drive propellers and even ducted-fan engines, as they already are in some UAVs. Boeing has an experimental motor-glider at a research unit in Madrid whose engine is powered by a fuel cell. But that is still a long way from growing up into an airliner. To start off with, fuel cells might be used to replace the small auxiliary gas turbines that roar away in the rear of a jet generating electricity when it is parked on the ground.

Better by design

Manufacturers are also looking at new aircraft designs. Boeing has worked on a “blended wing” concept which looks a bit like a giant stealth fighter. Such an aircraft would theoretically offer huge efficiency gains. But there are big practical problems, not least how passengers would feel about travelling in one. They would have to sit in long rows of seats, like in a cinema. And when the aircraft banked to make a turn, people at each end would feel as though they were in a giant roller-coaster.

Other designs under consideration include the “silent aircraft”, an industry-backed project by the Massachusetts Institute of Technology and Britain's Cambridge University. With fully enclosed engines, it would not only be quiet but also burn 25% less fuel. It is a credible project, but years of development work would be needed to turn it into a commercial reality, and it would be unlikely to enter service before 2030. The CleanEra project at Holland's Delft University of Technology, in association with various European aerospace groups, is working on another kind of flying wing that would cut CO_2 emissions by half, but a number of technological breakthroughs will be needed first.

A lot can be done even with today's technology. “Looking out to 2020 we can see a 50% reduction in fuel burn from the year 2000,” says Ric Parker, Rolls-Royce's director of research and technology. Rolls-Royce and a number of European aerospace firms have signed up to an initiative to achieve such a cut and also to reduce noise by half and NOx by 80%. Around 15-20% of the fuel savings would come from new engines and a similar amount from new aircraft designs. The remaining 10-15% would be achieved by operating aircraft in a more economical way. These are savings, says Mr Parker, that “we could have today.”

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Time to land

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From The Economist print edition

Lots of little things could make air travel a whole lot better

THE future of air travel does not have to bring yet more queues, gruelling delays and growing pollution. Existing technology can go a long way towards achieving the halving of fuel consumption that the industry wants. What more needs to be done to make further savings, reducing CO_2 emissions and improving profitability? The answer involves a number of fairly small things, some of which will also make flying more agreeable.

Begin at the departure gate. To save fuel, why not start the engines only when the aircraft is ready to leave and is cleared to taxi to the runway without queuing? It might even be able to taxi on one engine or be towed out.

Once airborne, the aircraft could save more fuel if air-traffic control systems were reorganised, enabling the pilot to navigate more efficiently and cutting down on delays. The Intergovernmental Panel on Climate Change has estimated that better management of air-traffic control services could bring an efficiency gain of up to 12%. “Governments are far too quick to impose taxes,” says IATA's boss, Mr Bisignani. “But they are slow to implement air-traffic management solutions that will improve environmental performance.”

The sky above Europe is in a particular mess. The EU has long been trying to unite a fragmented system that is still largely organised around national boundaries. Where America has a single provider of air-traffic control services, Europe has a mind-boggling 34. IATA says the resulting delays and longer routings cost airlines €3.3 billion a year.

But inefficient routings exist all over the world. China recently agreed to straighten a route for airlines crossing its airspace which has cut 15 minutes off a flight to Europe. Such reductions often involve tortuous negotiations between different organisations and governments, all apprehensive about losing “sovereignty” over their portion of the sky. But every minute of flying time saved can reduce fuel consumption by some 60 litres and cut 160kg of CO_2 emissions, so the effort is well worthwhile.

When it is time to land, aircraft usually make a stepped approach to an airport, descending and then maintaining altitude for a while before descending again. These steps continue until the final approach to the runway. But a continuous gentle descent to the airport would be more fuel-efficient. In a more advanced version, called a “tailored arrival”, air-traffic-control computers model a continuous approach for each aircraft to follow.

Landing this way not only saves fuel (perhaps more than $100,000-worth per year per aircraft) but also causes less noise. If managed efficiently, it can increase capacity in congested airspace, so instead of being put into wasteful holding patterns, more aircraft would arrive on time. That, in turn, would allow them to be made ready to depart on time, cutting down on delays. Trials using continuous descent have been carried out at a number of airports around the world. Aircraft are already being delivered with the equipment needed for this. If the trials prove successful, airports could start using the technique within a year or two. “Air-traffic management and operation of aircraft on the ground are two of the quickest areas where we could improve the system,” says Boeing's Mr Carson.

Corbis

The way it was

Saving weight would also help. Just 1kg less per seat can save some 40,000 litres of fuel per airliner over a year. Airlines are considering using lighter catering materials, carrying blankets only on long-haul flights and even switching from magazines printed on paper to electronic ones.

Lighten up

But some obvious remedies are being ignored. Many people come on board with bags heaving with duty-free and other bits of shopping. Airlines are reluctant to stop them because airport operators often use sales of duty-free and other items to subsidise landing charges. Some airlines also keep their own stocks of duty-free goods to sell to passengers in flight.

Nor is there enough debate about the most fuel-efficient way to make a long trip. Flying direct from A to B may not be the greenest way to go. For a very long flight about half the fuel being carried on take-off is needed simply to carry the fuel required to carry the passengers. It might be better for the environment to make long flights in 5,000km hops, as in the early days of jet travel—though today's passengers may find that unacceptable.

The more efficient that the air-travel industry becomes, the better it will be able to handle the huge increase in demand expected without unacceptable damage to the environment and unbearable hassle for passengers. Airlines have to cut emissions at a faster rate than the growth in passenger numbers, or they will find themselves running just to stand still.

But they also have to be able to earn the money they need to invest in new aircraft, because younger fleets are more efficient. Airlines need to spend $14 billion a year on new aircraft just to keep the age of the fleet at the current average of 12 years, says CreditSights, a research firm.

Governments need the political determination to change the archaic rules governing an industry that has helped to make globalisation possible but has itself failed to globalise. Often the best thing governments can do is meddle less. Where they have a role is in ensuring that competition is fair, aviation services are modernised and priced appropriately and safety rules are upheld. By and large flying is a particularly safe way to travel, but more so in some countries than in others (see chart 7).

Passengers can play their part too. The next time you find yourself flying in circles as your aircraft waits for a landing slot, go online (which will become possible in more aircraft soon) and complain to your member of parliament or government representative. Aircraft are unnecessarily pumping huge quantities of CO_2 into the atmosphere because of inefficiencies in a system for which governments are partly to blame. If you complain about such waste, you might do more for the environment than by staying at home.

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Offer to readers

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Ford

Another fine mess

Jun 14th 2007
From The Economist print edition

Corbis

The decision to look for a buyer for Jaguar and Land Rover is the latest sign that the turnaround at the world's third-biggest carmaker is not going well

Get article background

AFTER some huffing and puffing Alan Mulally, the chief executive brought in from Boeing to rescue Ford, has decided to get what he can for the firm's two British premium brands, Jaguar and Land Rover. The news trickled out this week after a meeting between Ford executives and British politicians. Although Ford's official position remains that it is simply exploring all its options, it has appointed three banks, Goldman Sachs, Morgan Stanley and HSBC, to flush out potential buyers. Fiat, an Italian car group, was tempted by Land Rover but pulled out of negotiations last month when it was warned how such a purchase would sully its credit rating.

The disposal of Jaguar and Land Rover, following Ford's sale of Aston Martin in March for $848m, would mean that of the premium brands bought by Jacques Nasser, Ford's boss in the late 1990s, only Volvo would remain. Ford's willingness to sell speaks volumes about its predicament. Its plan for restoring itself to profitability in North America by 2009, known as “The Way Forward”, was conceived 18 months ago and then accelerated by Mr Mulally after his arrival last September. But it has been slow to show results.

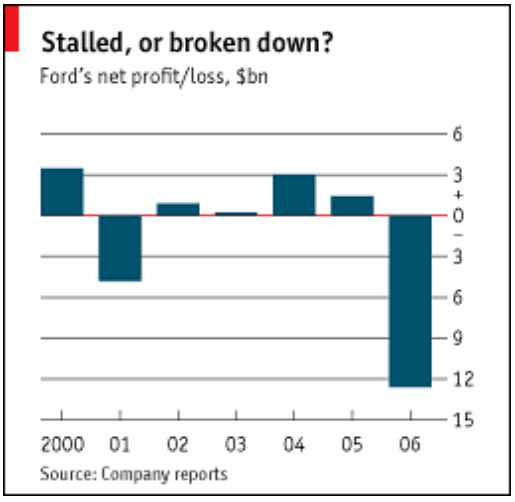
Last year Ford lost $12.6 billion, as sales in North America plunged by $11 billion. Sales there are still falling—by $1.6 billion in the first quarter—and efforts to cut costs are behind schedule. Although 18,000 jobs have gone, Ford's aim is to squeeze out a total of 30,000 hourly workers and 14,000 salaried positions by next year. It is also hoping to strike a deal with the powerful United Auto Workers union this summer to alleviate its crippling pension and health-care liabilities. Profitability by 2009 depends both on cutting $5 billion in costs and regaining at least one percentage point of American retail-market share from the dismal 9.7% Ford recorded in April.

Ford's main domestic rival, General Motors (GM), is at last showing signs of having turned the corner and, shorn of its unhappy relationship with Daimler-Benz, Chrysler is enjoying a new mood of optimism—even if that is not necessarily well founded. But Ford seems bogged down in a mire of its own. Even more dependent than its competitors on thirsty pick-up trucks, such as the F-150, and sport-utility vehicles, such as the Explorer, Ford was badly positioned to cope with last year's rapid rise in oil prices.

Many of its models had also been around for too long. Ford's North American product pipeline still looks weak, especially next to the new models coming from GM. Ford's hopes for a sales boost perilously rest on a new version of the F-150 due next year. Nobody suggests that America's love affair with light trucks is

over but, having cooled, the passion may never be quite as strong again.

Ford raised $18 billion in loans last year to see it through to 2009. It is not clear how much of this the company can risk on bringing some much-needed sparkle to its line-up of models. One option Ford does have, however, and which Mr Mulally is said to be keen on, is to be a bit braver about making more of Ford's successful European products in North America. The Focus is a class-leading bestseller, the S-Max is the European Car of the Year and the new Mondeo has won rave reviews.



But wherever Ford's salvation lies, it is unlikely that the sale of Jaguar and Land Rover will make much difference other than to free senior managers from the distraction of worrying about what to do with them. One analyst this week suggested that they could fetch $8 billion, but this may prove to be optimistic. Though both brands genuinely deserve that over-used adjective “iconic”, gauging their attraction to potential buyers is hard.

Land Rover has a decent record of making money and it produces outstandingly capable vehicles that now have the quality to go with their high prices. But if fears about global warming increasingly make the owners of SUVs feel like social pariahs, its long-term health may suffer. Given that Jaguar and Land Rover share factories, they may also be difficult to split apart, especially for a buyer (such as a private-equity group) that is not already a carmaker.

And anyone taking on Jaguar would need good reason to believe that the future will be different from the recent past. For Ford, Jaguar has been a glamorous money pit. Having splashed out $2.5 billion to buy Jaguar in 1989, an incredible figure to industry-watchers aware of the marque's precarious history and geriatric factories, Ford has been hosing it with cash ever since. It refuses to say how much, but the cost of creating modern manufacturing facilities and developing new models, nearly all of which have sold less well than hoped, must be many times the original purchase price.

For that, Ford itself must take much of the blame. Hoping to quadruple annual production to over 200,000, Ford signed off on two cars, the S-Type and the X-Type (respectively, competitors for the BMW 5 series and 3 series) that were not good enough. The S-Type suffered from clumsily executed retro styling, and the X-Type looked like a squashed XJ saloon. Jaguar compounded the error with its new XJ saloon in 2004. Technologically highly sophisticated, with its light aluminium chassis, the car handled as well as its rivals. But once again, frumpy “heritage” styling, apparently dictated by car clinics packed with elderly American owners, led to lacklustre sales.

The irony for Ford is that Jaguar finally seems to have learned its lesson. The new XK sports car, launched in early 2006, has been a critical success and the S-Type replacement, the XF, due out in December, is as modern on the outside as it is on the inside. Were it not for the weak dollar and Jaguar's history of snatching defeat from the jaws of victory, it might almost be possible to be optimistic about its future.

But do not expect a herd of carmakers to stampede to buy Jaguar and Land Rover. A private-equity buyer is more likely. Cerberus Capital probably has more than enough on its plate with Chrysler, but Apollo, Blackstone and particularly Alchemy Partners, which once tried to buy MG Rover from BMW, are all rumoured to be interested. Does the private-equity model fit a cash-hungry business in which it takes several years to bring a critical new model to market? Wanting the best price for Jaguar and Land Rover, Mr Mulally will be hoping that it does. His shareholders will also be watching closely—because the way things are going, it may not be long before Ford has to find a buyer for itself.

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Hybrid cars

Beyond the Prius

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From The Economist print edition

Toyota's Prius hybrid stole a march on the car industry. What comes next?

Get article background

WHETHER in Los Angeles, Tokyo or London, the Prius, Toyota's trailblazing petrol-electric hybrid car, has become a common sight since the second (and much-improved) version was launched three years ago. The Prius has since achieved cult status among image-conscious Hollywood stars and greener-than-thou politicians. Last week Toyota said it had passed the milestone of manufacturing more than 1m hybrid vehicles.

The charms of the Prius are not hard to grasp. The combination of a frugal 1.5-litre petrol engine with an electric motor provides the performance of a 2.0-litre engine but with lower fuel-consumption than a diesel. The Prius recaptures energy usually lost during braking and can run on electric power alone in stop-start traffic. Its CO_2 emissions of 104g/km make it cleaner than almost any other car on the road.

But there is disagreement about where hybrid technology is heading. Hybrid SUVs from Ford and General Motors (GM) have been slow sellers. And last week Honda said it would no longer offer its bestselling Accord in a hybrid option, but would instead introduce a low-emission diesel version in 2009. Honda reckons hybrid technology is better suited to small cars, such as its Civic, used for short trips.

For its part, GM reckons that hybrids will only become more popular if their range in all-electric mode can be increased. It is pinning its hopes on the futuristic-looking Chevrolet Volt, a “plug-in” hybrid that can be charged overnight using mains electricity. With its powerful and compact lithium-ion batteries the Volt will have a range in all-electric mode of up to 40 miles (64km), at which point a small petrol engine will kick in to recharge its batteries. (Unlike the Prius's petrol engine, the Volt's will not drive the wheels directly.) Last week GM's chairman, Rick Wagoner, said contracts had been placed with battery-makers to develop power packs safe and reliable enough for a production vehicle, which GM hopes to launch by 2010.

Toyota's top hybrid engineers say they are all for plug-ins, but they don't think the lithium-ion batteries they depend on will be ready to meet their stringent quality standards for several years. (They cannot resist a polite titter about spontaneously combusting laptop batteries.) Toyota is therefore likely to stick with the heavy and range-limited nickel-metal hydride battery for the third-generation Prius, due in 2009.

But it is not only GM that has the next Prius in its sights. PSA Peugeot Citroën hopes to offer diesel-electric hybrid versions of its mid-range cars by 2010 that will use less fuel than the Prius on long journeys. Toyota responds that combining the higher cost of a diesel engine with hybrid technology will be too expensive, but PSA claims it will make money on cars that will undercut the Prius on price.

And then there are the big German carmakers, which are adopting a range of technologies that they say provide most of the benefits of hybrids but without the added cost and complexity. For example, all BMW's four-cylinder engines (both petrol and diesel) will come with “start-stop” technology to cut the engine when it is idling. This is sometimes called a “mild” or “start-stop” hybrid. Mercedes and Volkswagen, meanwhile, are working to improve the efficiency of internal-combustion engines, especially ultra-clean diesels—though Mercedes will offer a petrol-electric hybrid version of its S-Class limousine later this year.

Toyota's ample cash and engineering resources mean that it is unlikely to be caught out, whichever way the market goes. Even if the Prius is pushed aside by other forms of hybrid, it has done wonders for Toyota's reputation by making the firm seem green and technically cool. At a time when the Japanese firm was taking advantage of the collective woes of America's carmakers to become the market leader, that has been politically priceless.

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Shareholder activism

Dial L for locust

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Vodafone comes under pressure from activist shareholders. Who's next?

VODAFONE's annual general meetings do not lack drama. In 2006 an embarrassing number of shareholders at the giant mobile-phone operator signalled their displeasure with the firm's performance by voting against the re-election of Arun Sarin, the chief executive, to the board. Mr Sarin survived, but once again finds himself under pressure from shareholders in the run-up to this year's meeting on July 24th. The threat is at once less grave than 12 months ago and more interesting.

The source of the trouble this time around is Efficient Capital Structures (ECS), an activist group which on June 6th tabled shareholder resolutions calling on Vodafone to spin out its 45% stake in Verizon Wireless, a buoyant American mobile operator; to take on more debt; and to cap the amount that the company's top brass can spend on acquisitions in any one year. ECS claims that its ideas would enrich shareholders by as much as £38 billion ($75 billion). Vodafone disagrees. Both sides will spend the coming weeks trying to win over shareholders to their points of view.

Mr Sarin should count himself lucky to have the opponents he does. Activist investors are known for using small stakes to exert pressure on managers to change course, but ECS takes the biscuit, with a holding worth just 0.0004% of Vodafone's £83 billion share capital. (ECS is using an obscure piece of British company law to get its resolutions onto the agenda.) One of ECS's backers is John Mayo, whose past career at Marconi, a maker of telecoms equipment, ended in a sensational failure—“Take Mayo with a large pinch of salt”, ran one recent headline. The group's proposals are not especially original. Mr Sarin can point to a 30% rise in the share price over the past year as evidence that Vodafone is on track and ECS itself is at pains not to criticise the firm's management or strategy.

ECS says it is getting a positive reception from other shareholders, but several big investors have already come out against its proposals. It seems likely that its resolutions will be defeated. Even so, the episode underlines the march of activist investors in Europe. Firms of Vodafone's scale may still be too big for private-equity groups to swallow, but they are clearly within the activists' range. Today's bidding war for ABN AMRO, a large Dutch bank, was sparked by an activist hedge fund. Come what may, ECS has prompted spirited discussion of its ideas. And ECS has been innovative. Plenty of people will surely copy its idea of carving its tiny stake into even smaller pieces so it could claim to speak for 100 shareholders, as the law requires for proposals to be put to a shareholder vote.

But that is only part of the reason why the level of activism seems likely to rise. Activism tends to work, for one thing. Studies show that companies in the crosshairs of activist funds are likely to outperform the market. The Vodafone battle also underscores the types of companies that are most vulnerable to activists' attention. Activist funds like companies that are undervalued and have low levels of debt and strong cashflow. Large firms are often preferred, partly because their relative immunity to buy-out speculation has kept their share prices lower. A concentrated shareholder base helps to make it easier to win sufficient support from others. Using these criteria, analysts at Citigroup have identified other big European firms that are potential targets, including Ericsson, Royal Dutch Shell, Henkel and GlaxoSmithKline.

For their part, managers of such companies are becoming more active themselves. Investment banks have begun to set up teams that can help firms respond to activists. Companies are holding shareholder audits and honing their media playbooks. Simon Brocklebank-Fowler of Cubitt Consulting, an investor-relations consultancy, says that companies which come under attack need to undermine the activists' credibility, keep in close contact with big shareholders and win the economic argument. On all three counts, Vodafone has reason to be confident.

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Shareholder democracy

Here comes Fanchester United

Jun 14th 2007
From The Economist print edition

Buying a football team used to be a rich man's game. Not any more

YOUNG football fans dream of playing for their favourite teams; older fans dream of buying them. For most people, however, a club is beyond their means, so they must indulge their managerial ambitions in other ways, such as fantasy-football games or computer simulations. But now Will Brooks, a British football journalist, has devised a novel scheme to allow fans to own and manage an English club for real.

Through his website, launched in April at myfootballclub.co.uk, Mr Brooks hopes to sign up at least 50,000 fans prepared to pledge £35 ($70) each. (So far he has signed up nearly 35,000.) The syndicate will then use at least £1.4m of its funds to target a team for a takeover bid. Mr Brooks stresses that this is a non-profit venture for genuine fans who want to make a real difference to a club in need. Because the acquisition will not be financed by debt, there will be no interest payments, and since no money will be taken out as dividends, any profits can be reinvested. “The club should therefore be on a much more secure financial footing than the standard shareholder-ownership structure,” says Mr Brooks.

Leeds United is top of the fans' shopping list, according to votes cast online. Catastrophic financial mismanagement and spiralling debts lie behind the club's demotion from the top flight of English football to a division two tiers below in only five seasons. Last month the club said it could not even afford to pay the expenses of medical volunteers who attend its matches. But Leeds may not be the eventual takeover target. Mr Brooks has brought in Michael Fiddy, a lawyer and former managing director at Fulham, to make sure that the target club is in good financial order.

Once a club has been bought, every decision—from picking players for the squad to choosing tactics to identifying candidates for transfers—will be made by the syndicate's members. Instead of a manager the club will have a coach who will say what he thinks is best for the team; his proposals will then be put to an online vote. It may not be easy to find a coach willing to agree to these terms, but if the club is successful, the coach “will become well known and respected for having the courage to try something new,” says Mr Brooks. And if things go wrong? For once, the fans will not be able to blame the manager.

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Business in Turkey

Flying the flag

Jun 14th 2007 | ISTANBUL
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Turkey's national carrier highlights the forces reshaping the country

KEMAL ATAURK, Turkey's revered founder, once observed that he had managed to teach his people most things, but not how to serve others. He made this remark after a waiter accidentally spilled a drink over a foreign ambassador at the presidential palace in Ankara. For decades passengers on Turkey's national carrier, Turkish Airlines, suffered similarly poor service. Baggage frequently went missing; flights rarely took off on time; and once they did, ferocious stewardesses charged up and down the aisles barking orders at their customers. With nine fatal plane crashes between 1974 and 2003, the airline had a poor safety record. Its acronym THY (Turk Hava Yollari) came to stand for “They Hate You”. Not surprisingly, THY's finances were disastrous too.

But in recent years the airline has pulled out of its nosedive. Sales jumped by 22% in 2006 and net profit by 28%; the firm's latest results, announced on June 4th, suggest that the growth will continue, says Bahar Deniz Egemen, an analyst at Garanti Securities in Istanbul. Last year the Association of European Airlines named THY Europe's fastest-growing airline, its most punctual, and the least likely to lose luggage. “Our goal is to grow by 20% every year, to become the world's best airline,” says Temel Kotil, THY's boss, who was appointed in 2005 by Recep Tayyip Erdogan, Turkey's mildly Islamist prime minister.

Mr Kotil, an American-trained mechanical engineer, says the turnaround began in the early 1990s under Turgut Ozal, the president at the time. An ardent free-market advocate, Mr Ozal replaced the succession of retired generals who used to run THY with experienced, Western-trained managers and began privatising the company. (The government's holding has since been reduced to 49%.) As well as better managers, THY also has better aircraft, having spent $3 billion expanding and modernising its fleet since 2003. With new long-haul aircraft, THY has doubled its capacity to 17m passengers per year and has added 24 new destinations to its network.

Further gains came with the boom in Turkish tourism and an influx of business travellers as Istanbul became the main hub for those flying to the newly independent oil-rich states in Central Asia and the Caucasus, routes which THY dominates. Mr Kotil hopes to exploit Istanbul's position straddling Europe, the Middle East and Asia, and expand THY's market share in the Far East. And he is finalising arrangements to join Star Alliance, an airline grouping led by Germany's Lufthansa.

But the skies are hardly clear. Turkey's threats to invade Kurdish-controlled northern Iraq and escalating Kurdish rebel attacks inside the country might burst the bubble, analysts warn. Smaller low-cost operators have already forced THY to adopt a more flexible pricing scheme. And THY's growing standing abroad is not always reflected at home. The secular media has accused Mr Kotil of filling senior posts with cronies whose religious zeal is unmatched by their managerial skills. Mr Kotil denies this and maintains that only six of the company's entire staff are graduates of the Islamic clerical training schools known as *imam hatips*.

Yet a newly Islamist spirit was undeniably on display when a group of employees sacrificed a camel near a runway at Istanbul airport last December and then distributed its meat to co-workers to celebrate the modernisation of the THY fleet. The manager in charge was moved to a different department and an investigation was launched. But “in any other Western airline, he would have been sacked instantly,” observes a former THY official.

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Foreign direct investment

DP World's long shadow

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From The Economist print edition

Investment by Gulf states in America is picking up, but Europe and Asia beckon

The Guardian

WITH Saudi Basic Industries buying General Electric's plastics unit recently for $11.6 billion, and Dubai Aerospace Enterprise snapping up Landmark Aviation and Standard Aero Holdings from the Carlyle Group for $1.8 billion, it appears that direct investment in America from the Middle East has rebounded. Neither deal caused a ripple of protest, in marked contrast to the outcry from American politicians that greeted last year's attempt by DP World, a company based in the United Arab Emirates (UAE), to buy a British firm that operated several ports in America. The storm abated only when DP World agreed to sell the American operations to an American-owned firm to assuage concerns over national security.

That episode caused investment from the UAE alone to fall by over $1 billion last year, according to America's Commerce Department—at a time when Gulf states, flooded with petrodollars, have been on a spending spree. But even if investment in America is picking up again—this week Istithmar, the Dubai government's investment arm, was said to be close to an $825m deal to buy Barneys New York, a fashion retailer—doubts remain and investment opportunities elsewhere beckon.

According to the International Institute of Finance, a global association of financial firms, more than half the foreign direct investment from members of the Gulf Co-operation Council—Qatar, Bahrain, Saudi Arabia, the UAE, Kuwait and Oman—has been in Europe. In the past few months Dubai International Financial Centre bought a 2.2% stake in Deutsche Bank; Maan Abdul Wahed Al-Sanea, a Saudi investor, acquired 3.1% of HSBC; and Delta Two, a property-investment group backed by the Qatari government, bought 17.6% of J. Sainsbury, a British supermarket chain. Georges Makhoul of Morgan Stanley, an investment bank, notes that Europe has traditionally been more receptive to foreign acquisitions than America.

Money from the Gulf has also been flowing east to Asia. Last week Saudi Basic Industries and China's Sinopec Corporation agreed to invest over $1 billion in a petrochemicals plant in Tianjian in northern China. Etisalat, a telecoms operator based in the UAE, plans to increase its 26% stake in Pakistan Telecom, which it bought in 2005 for $2.6 billion, to 51%.

American officials have taken notice of this trend. Legislation to reform the Committee on Foreign Investment in the United States, which reviews the national-security impact of investments and was at the heart of the DP World controversy, will probably be passed within the next few weeks. The new rules will increase the transparency of reviews and should help to thwart any future backlash in Congress. But they include an automatic 45-day investigation, on top of the normal 30-day review, for firms wholly or partially owned by foreign governments. This will catch many Middle Eastern firms.

For their part, investors have also changed their approach. Todd Malan, president of the Organisation for International Investment, which represents the American subsidiaries of foreign firms, notes that Dubai

Aerospace Enterprise has been very open with Congress and co-operative with the review process—a striking difference from the way DP World conducted its acquisition last year. And the UAE has launched a public-relations drive to bolster its image and support for acquisitions.

Most of the money flowing outwards from the Gulf Co-operation Council still goes towards buying debt and equities in America. But when Saudi Arabia's King Abdullah chose China and India for his first state visits outside the Middle East in 2006, he made it clear where the future for Gulf investment lies.

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Telecoms in China

Olympic hurdle

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After years of delay, China has yet to award 3G mobile licences. Why?

JIANG XIAOYU, the executive vice-president of the Beijing Organising Committee, ticks off the long list of extraordinary accomplishments that have been necessary for China to fulfil its commitments to the International Olympic Committee (IOC) for the 2008 games. Huge industrial operations, including a steel mill, have been moved from Beijing to reduce air pollution; construction is forging ahead on a new railway line, airport terminal and too many world-class sports facilities to count. Everything seems to be either on or ahead of schedule—with one exception. China may, says Mr Jiang, have to go back to the IOC to discuss its pledge to have a "third generation" (3G) mobile-phone network available in time for the games.

The ancient Greeks managed perfectly well without mobile phones, and this singular failure will probably not matter much to sports fans. But for China, the games are just as much a display of vibrant modernity as a sporting event. Using the Olympics to show off Chinese technological prowess by enabling throngs of spectators to follow events on their phones promised some useful public relations.

In all likelihood some 3G technology will be available, but only to a limited number of users in a limited area, thanks to a pilot scheme that should be running later this year in several cities. It is being set up by China Mobile, the world's largest mobile operator by subscriber numbers, which is under heavy pressure from the government. Rather than showing off the new China, this modest effort to catch up with 3G networks already common in other parts of the world illustrates how intractable and damaging state control of the Chinese economy continues to be.

For years foreign equipment-makers such as Ericsson and Nokia, and domestic ones such as Huawei and ZTE, have been salivating at the prospect of 3G being introduced in China, a country with nearly 500m mobile subscribers. From the industry's perspective, says Duncan Clark of BDA China, a consulting firm, the best thing the government could do is issue licences allowing China's operators to build 3G networks using one of the two international 3G technology standards.

But Chinese bureaucrats have instead been pushing a proprietary Chinese standard, called TD-SCDMA, that could circumvent royalties to Western companies and enhance China's reputation for innovation. The development of this new technology has taken years and cost a fortune, but it is still not ready. The government does not want to issue the 3G licences until its home-grown technology is ready to compete with foreign standards. But the plan to establish TD-SCDMA as a global 3G standard and sell gear to other countries now seems doomed to fail.

A further cause of delay is disagreement over the structure of China's telecoms industry. China Mobile is doing brilliantly, collecting two-thirds of all new subscribers and more than four-fifths of the industry's profit growth, according to JPMorgan, an investment bank. The rest of the industry is sliding into a funk. China's two fixed-line operators, China Telecom and China Netcom, are suffering as consumers defect to mobile phones for local calls and to cheap internet-based services for long-distance calls. Meanwhile, a second mobile provider, China Unicom, has adopted two incompatible network technologies and looks increasingly feeble.

As a result there is much talk of an impending industry reorganisation, which would need to happen before 3G licences were issued. China Mobile, it is said, would be given the small fixed-line network run by the state-controlled railway firm and would be saddled with a 3G licence forcing it to use the domestic 3G standard. China Unicom's two networks would be separated, with one awarded to each of the fixed-line firms. Each would then be granted a 3G licence allowing it to use one of the international 3G standards.

In capitalist economies, schemes like this can be worked out by the market, through a series of deals. Not long ago, the Chinese government could have simply mandated change. But now the country appears to be stuck. Three powerful regulatory agencies must approve any reordering, and there is a strong suspicion that they disagree with each other. All four telecoms firms have gone public on the Hong Kong Exchange,

creating another constituency: outside shareholders. According to exchange rules, they must also approve of any reorganisation. Sorting out all these interests will be a nightmare.

Foreign investors looking at China often swoon at the country's vast potential but are driven mad by its conflicting and heavy-handed policies. The state of the country's telecoms industry, however, suggests that the Chinese government faces precisely the same problem.

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Face value

The veteran

Jun 14th 2007
From The Economist print edition

AFP

Neville Isdell returned from retirement to fix Coca-Cola. His plan seems to be working

Get article background

WHEN it came to finding someone to turn the company around in 2004, Neville Isdell was not the first or even the second choice of Coca-Cola's directors. With the world's biggest soft-drinks firm embroiled in one of the greatest crises of its 121-year history, its directors looked for an outsider to fix things. Only after rejections from James Kilts, then boss of Gillette, a consumer-goods giant, and Carlos Gutierrez, then boss of Kellogg, a food firm, did they turn to Mr Isdell, then aged 62, who was enjoying a sunny retirement in Barbados after having spent 40 years with the company.

He did not hesitate to swap his swimming trunks for a suit, having been passed over for Coca-Cola's top job in 1997 and again in 2000—which had prompted his early retirement. Born in Ireland, Mr Isdell was raised in Zambia, where he first began to work for Coca-Cola. Stints in South Africa, Australia, the Philippines and Germany followed; Mr Isdell then took the company into new markets in India, the Middle East and the former Soviet Union, and ended up in charge of its European operations. Always a hands-on manager, his first action on returning to the company was to investigate its troubles for himself. Like some modern-day Phileas Fogg, he criss-crossed the world in 100 days to listen to employees of all ranks in many of the more than 200 countries where Coca-Cola is present. What he found was sliding sales, demoralised staff, ineffective marketing and a lack of leadership. The most valuable brand in the world was experiencing a crisis of confidence. “We had lost our belief in our ability to win,” says Mr Isdell.

Once back at Coca-Cola's base in Atlanta, Georgia, Mr Isdell shared his findings with the company's top executives. The result of what he calls a “cathartic process” was the Manifesto for Growth, a ten-year plan to revive the company. Its first objective was to improve the making and marketing of Coca-Cola, Sprite and Fanta, the fizzy drinks that account for about four-fifths of the firm's sales. Mr Isdell decided to pump an additional $400m into marketing as evidence grew that the power of the Coca-Cola brand was slipping. At the same time he moved to strengthen the company's portfolio of non-carbonated and “functional” drinks. Bottled water, sports and energy drinks and fruit juice are now the main sources of new business in the soft-drinks industry, with growth rates seven times higher than those for carbonated sugary drinks, sales of which have lost their vigour as a result of concerns over obesity. Mr Isdell's boldest move in this area came on May 25th when Coca-Cola said it would buy Glacéau, an American maker of vitamin-enhanced water, for $4.1 billion—its largest acquisition ever. (Last week, however, Coca-Cola lost to its rival, PepsiCo, in a battle to acquire Sandora, a Ukrainian juice company.)

A former bottling supremo—he once ran Coca-Cola Beverages, a European bottler—Mr Isdell has also paid close attention to the company's often-dysfunctional relations with bottling companies. Under agreements that sometimes date back more than a century, Coca-Cola supplies concentrate to local bottlers, which then make and distribute soft drinks. Mr Isdell gave the bottlers permission to team up with other firms in order to cater better to the boom in healthy drinks. Since Coca-Cola owns stakes in many bottlers, and owns some outright, this is another way for it to diversify. Coca-Cola Enterprises, for example, a big American bottler in which Coca-Cola owns a large stake, now distributes AriZona, a ready-to-drink tea made by Ferolito, Vultaggio & Sons, an American iced-tea company. As part of this strategy Mr Isdell also increased Coca-Cola's stake in some bottlers, or bought them outright, as he did this year with the bottling firm where he used to work in the Philippines.

Mr Isdell's efforts are now starting to yield results. The company's share price rose by 20% during 2006, and in the first quarter of this year sales jumped by 17%, to $6.1 billion, and profits increased by 14% compared with a year earlier. Analysts at Stifel Nicolaus, a financial-services firm, consider these results the best evidence that Mr Isdell's plan is working and that his long-term aims are sound. Bonnie Herzog, a beverage analyst at Citigroup, recently upgraded Coca-Cola to a “buy” rating for the first time in four years, mainly because of the Glacéau takeover. It shows that the firm is “getting its act together”, she says.

Sparkling or still?

But others remain sceptical. Robert van Brugge of Sanford Bernstein, an investment-research company, thinks the acquisitions of Glacéau and Fuze, an American juice and tea firm, are good deals, but both are relatively small companies. Lacklustre sales in the developed world need a lift, he says. Europe, America and Japan accounted for roughly 70% of profits, but hardly any growth in 2006. And many of last year's new drinks, such as Coke Blak, a coffee-infused soft drink, and Gold Peak, an iced tea, were flops. According to Euromonitor, a market-research company, Coca-Cola has been losing global market share over the past six years. Pepsi has done a better job of moving into health drinks in America. And unlike Pepsi, which makes snacks as well as soft drinks, Coca-Cola does not have another line of business as a hedge. This is unlikely to change any time soon, as Mr Isdell wants to fix things first.

He points out that his firm has beaten analysts' expectations in each of the past ten quarters, though he admits that “we are not declaring victory yet.” Some analysts would have preferred more radical measures, such as bolder acquisitions and job cuts. But they knew an insider was unlikely to make drastic changes and have been surprised by how much Mr Isdell has achieved. Never underestimate the difficulty of stopping the rot at a huge firm like Coca-Cola. But for Mr Isdell to be seen as the company's saviour, he now needs faster growth, too.

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RNA

Really New Advances

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Molecular biology is undergoing its biggest shake-up in 50 years, as a hitherto little-regarded chemical called RNA acquires an unsuspected significance

Get article background

IT IS beginning to dawn on biologists that they may have got it wrong. Not completely wrong, but wrong enough to be embarrassing. For half a century their subject had been built around the relation between two sorts of chemical. Proteins, in the form of enzymes, hormones and so on, made things happen. DNA, in the form of genes, contained the instructions for making proteins. Other molecules were involved, of course. Sugars and fats were abundant (too abundant, in some people). And various vitamins and minerals made an appearance, as well. Oh, and there was also a curious chemical called RNA, which looked a bit like DNA but wasn't. It obediently carried genetic information from DNA in the nucleus to the places in the cell where proteins are made, rounded up the amino-acid units out of which those proteins are constructed, and was found in the protein factories themselves.

All that was worked out decades ago. Since then, RNA has been more or less neglected as a humble carrier of messages and fetcher of building materials. This account of the cell was so satisfying to biologists that few bothered to look beyond it. But they are looking now. For, suddenly, cells seem to be full of RNA doing who-knows-what.

And the diversity is staggering. There are scnRNAs, snRNAs and snoRNAs. There are rasiRNAs, tasiRNAs and natsiRNAs. The piRNAs, which were discovered last summer, are abundant in developing sex cells. No male mammal, nor male fish, nor fly of either sex, would be fertile without them. Another RNA, called XIST, has the power to turn off an entire chromosome. It does so in females because they, unlike males, have two X chromosomes and would otherwise get an unhealthy double dose of many proteins. There is even a “pregnancy-induced non-coding RNA”, cutely termed PINC. New RNAs are rushing forth from laboratories so rapidly that a group called the RNA Ontology Consortium has been promised half a million dollars to prune and tend the growing thicket of RNA-tailed acronyms.

In the light of this abundance, perceptions about what a gene is need to change. Genes were once thought of almost exclusively as repositories of information about how to build proteins. Now, they need to be seen for what they really are: RNA factories. Genes for proteins may even be in the minority. In a human, the number of different microRNAs, one of the commonest of the newly discovered sorts of RNA, may be as high as 37,000 according to Isidore Rigoutsos, IBM's genome-miner in chief. That compares with the 21,000 or so protein-encoding genes that people have.

Philosophers of science love this sort of thing. They refer to it as a paradigm shift. Living through such a shift is confusing for the scientists involved, and this one is no exception. But when it is over, it is likely to have changed people's views about how cells regulate themselves, how life becomes more complex, how

certain mysterious diseases develop and even how the process of evolution operates. As a bonus, it also opens up avenues to develop new drugs.

Increase and multiply

Not everyone agrees with Dr Rigoutsos about how many microRNAs there are. But the results of a project called the Encyclopaedia of DNA Elements (ENCODE), published in this week's *Nature*, suggest he is on the right track. The project looked in detail at 1% of the human genome. When ENCODE started, four years ago, the conventional wisdom was that only a few percent of this 1%, corresponding mainly to the protein-coding genes, would actually be transcribed into RNA. In fact, most of it is. What this means is unclear—just how unclear being shown by the fact that although the consortium was willing to identify only eight places where this transcription definitely results in an RNA molecule with a job other than passively carrying the code for a protein, they found another 268 where there was likely to be one, and several thousand more where the data hinted there might be one. That compares with 487 protein-coding genes in the same sequence.

Other evidence suggests that microRNAs regulate the activity of at least a third of human protein-encoding genes. This means there are very few cellular processes that do not happen under their watch. Around 20 microRNAs, for instance, are made only in human embryonic stem cells. These molecules could turn out to be the key to understanding how such cells remain in a state from which they can become any other type of cell—the very reason embryonic stem cells hold such great medical promise.

The existence of microRNAs may also help to explain why some creatures are more complex than others. Until their discovery, this was something of a paradox. Knowing that DNA stores data that then get translated into living organisms, and that the complexities of development must require lots of information, biologists naturally expected that the more intricately formed an organism is, the more genes it would have in its cells. They therefore struggled when they found that *C. elegans*, a tiny worm that lacks a proper brain but is nevertheless widely studied by geneticists, has about 20,000 genes—only a little bit short of the number in a human. Indeed, this seems to be a general number for animals. Another geneticists' favourite, the fruit fly *Drosophila*, has a similar number. But, of course, the genes in question are protein-coding genes. Add in the genes whose RNA does other things and the balance changes.

It changes even more if exactly what those RNA molecules do is examined. Single microRNAs, for example, often regulate the levels of hundreds of different proteins. They are like powerful strings controlling copious protein puppets. Super-imposed on this, some types of regulatory RNA edit other kinds of RNA. The effect of extra genes for both of these sorts of RNA molecules is therefore multiplicative rather than additive.

The picture that is emerging is thus one of “hard-wired” simple organisms, which mostly stick to using RNA for fetching and carrying, and “soft-wired” complex ones that employ it in a management capacity. In the complexity stakes, it is not how many protein-coding genes you have, but how you regulate them, that counts.

What's up, Doc?

Another consequence of RNA's rise to prominence is that researchers have a new source of explanations for illness. Small RNAs have been linked to many types of cancer, to genetic diseases of the central nervous system, and even to infections. Some scientists, for instance, think that RNA molecules help the protein that causes Creutzfeldt-Jakob disease to recruit non-infectious proteins to join its ranks.

The new RNA world is also a source of ideas about how diseases might one day be treated. In this line of work it is best to start simple, which is why the main hunt for new drugs centres on a technology called RNA interference, or RNAi (see article). This, in theory at least, promises to turn down the production of any single protein to very low levels. That distinguishes it from microRNAs, which control many proteins simultaneously.

A hypothetical RNAi drug might, for instance, become the ultimate analgesic by affecting the activity of SCN9A, a gene recently pinpointed as the reason why a Pakistani street performer—who put knives through his arms and walked on burning coals—could not feel pain. The technology has also helped over-eating mice stay slim and live a fifth longer. That was done by choking an insulin-receptor gene in the animals' fat cells. This made the cells less inclined to store every calorie. The technique has even created

edible cottonseed (for anyone who might want to try it) by eliminating cotton's gossypol toxin. Not least, it can claim to have produced allergy-friendly soya beans, by turning off the gene that encodes the protein that provokes the reaction.

It is also a technology that can be used at one remove. Recently, Michael White of the University of Texas and his colleagues used RNAi not to treat lung cancer directly, but to convert tumorous cells that do not respond to Taxol, a widely used anti-cancer drug, into cells that are sensitive to it. They did this by silencing Taxol-suppressing genes that were usually active in those cancer cells.

RNAi drugs work by mugging another sort of RNA—one of the classes of the molecule discovered decades ago. These are the messenger-RNA molecules that shuttle information from DNA to the cell's protein factories. The drugs themselves are short pieces of RNA made of strands about 21 genetic letters long. What is unusual about these molecules is that they have two parallel strands, instead of a single one.

One of DNA's differences from RNA is that it comes as a double-stranded helix. Molecules of RNA usually have only a single strand. When a double-stranded RNAi drug enters a cell, an “argonaute” protein picks the molecule up and unzips it down the middle. It chops one strand in two and discards those remnants. The other strand acts as a guide for the argonaute. It can pair with a messenger-RNA molecule—at least, it can do so as long as this messenger contains a sequence of 21 letters that complement those of the drug.

When such RNA molecules do pair, the argonaute slices the messenger to oblivion like a sword-swinging samurai, just as it did with the other half of the original RNAi drug. Thus the gene whose message it was carrying is silenced. This is how RNAi drugs stop the production of disease-related proteins at source—they hold the tap turned off whereas most medicines try to mop up a continuous leak. Messenger destruction is specific because 21 letters of code are nearly always enough to identify the instructions for one type of protein over another.

The most probable explanation for RNAi is that it evolved as a defence against viruses. Double-stranded RNA is rare in nature, but viruses often make it when they reproduce. This means that organisms which have evolved the ability to recognise and destroy double-stranded RNA molecules have a competitive advantage over those that do not.

That is one example of the role of RNA in evolution. But there are many more. The evolution of microRNAs, for instance, underlines their importance in the origin of complexity. Their number appears to have ballooned when land plants and vertebrates evolved. But it is early days in this research. Dave Bartel, of the Massachusetts Institute of Technology, is surveying grand lists of small RNAs in mosses, flowers, worms, flies and mice in the hope that he will learn when different families of microRNAs emerged and which genes these microRNAs are regulating.

Dr Bartel has already discovered microRNA genes interspersed among sets of protein-encoding genes called *Hox* clusters. *Hox* clusters contain basic instructions about body plans, and the genes within them are arranged in the order in which they influence their owner's shape during development. In short, a *Hox* gene at one end of a cluster contains the information: “Give this embryo a head”. The gene at the other end says: “And a tail, too”. The role of the interspersed microRNAs is to regulate these high-level commands.

Ronald Plasterk, of the University of Utrecht, in the Netherlands, suggests that microRNAs are important in the evolution of the human brain. In December's *Nature Genetics*, he compared the microRNAs encoded by chimpanzee and human genomes. About 8% of the microRNAs that are expressed in the human brain were unique to it, much more than chance and the evolutionary distance between chimps and people would predict.

Such observations suggest evolution is as much about changes in the genes for small RNAs as in the genes for proteins—and in complex creatures possibly more so. Indeed, some researchers go further. They suggest that RNA could itself provide an alternative evolutionary substrate. That is because RNA sometimes carries genetic information down the generations independently of DNA, by hitching a lift in the sex cells. Link this with the fact that the expression of RNA is, in certain circumstances, governed by environmental factors, and some very murky waters are stirred up.

It's evolutionary, my dear Watson

What is being proposed is the inheritance of characteristics acquired during an individual's lifetime, rather than as the result of chance mutations. This was first suggested by Jean Baptiste Lamarck, before Charles Darwin's idea of natural selection swept the board. However, even Darwin did not reject the idea that Lamarckian inheritance had some part to play, and it did not disappear as a serious idea until 20th-century genetic experiments failed to find evidence for it.

The wiggle room for the re-admission of Lamarck's ideas comes from the discovery that small RNAs are active in cells' nuclei as well as in their outer reaches. Greg Hannon, of the Cold Spring Harbor Laboratory in New York State, thinks that some of these RNA molecules are helping to direct subtle chemical modifications to DNA. Such modifications make it harder for a cell's code-reading machinery to get at the affected region of the genome. They thus change the effective composition of the genome in a way similar to mutation of the DNA itself (it is such mutations that are the raw material of natural selection). Indeed, they sometimes stimulate actual chemical changes in the DNA—in other words, real mutations.

Even this observation, interesting though it is, does not restore Lamarckism because such changes are not necessarily advantageous. But what Dr Hannon believes is that the changes in question sometimes happen in response to stimuli in the environment. The chances are that even this is still a random process, and that offspring born with such environmentally induced changes are no more likely to benefit than if those changes had been induced by a chemical or a dose of radiation. And yet, it is just possible Dr Hannon is on to something. The idea that the RNA operating system which is emerging into view can, as it were, re-write the DNA hard-drive in a predesigned way, is not completely ridiculous.

This could not result in genuine novelty. That must still come from natural selection. But it might optimise the next generation using the experience of the present one, even though the optimising software is the result of Darwinism. And if that turned out to be commonplace, it would be the paradigm shift to end them all.

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RNA-based drugs

Little hopes

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New classes of drugs that exploit the new RNAs are in development

Get article background

DRUGS based on RNA interference (see article) are still being tested, but they are moving within striking distance of the market. Opko Corporation, based in Miami, is planning its final round of clinical trials for an RNAi drug later this year. The drug is designed to halt a disease called wet age-related macular degeneration, which is one of the most common forms of blindness in elderly people. It works by stopping the manufacture of a protein called VEGF, which is over-produced in the disease.

In the past two years investment has poured into two larger RNAi specialists, which both claim more intellectual property than Opko. In September 2005 Novartis, a big drug company, promised one of these ambitious young hopefuls, Alnylam Pharmaceuticals, $700m if it creates real medicines from its science. In April 2006 GlaxoSmithKline, another of the pharmaceutical industry's ruling elite, dangled the same figure in front of Alnylam's main rival, Sirna Therapeutics. Then, in December, Merck gobbled Sirna for $1.1 billion—more than twice Sirna's stockmarket value. Although the company has finished only one clinical trial, Ted Tenthoff, of Piper Jaffray, an investment bank, thinks that price may prove cheap.

There is, however, an obstacle to turning RNAi into the next broad category of drug. Opko's eye treatment can be popped straight into the eyeball with a needle. Inside a cell, or an enclosed space like an eyeball, RNAi works like a charm. Often, though, a drug must hitch a ride in circulating blood to reach the diseased part of the body it is aimed at. RNA is not tough stuff. Enzymes in the blood destroy it quickly. Even those in a breath that is carelessly exhaled over a test tube can ruin an RNA experiment. Most RNAi drugs will probably have to be encased in lipid bubbles to protect them. At the moment RNAi companies are designing bubbles that unload their contents when they find the right sort of diseased cell.

If that problem can be solved, a subsequent wave of medicines might come from microRNAs. When a cell stops making a crucial microRNA, the proteins it would have controlled are produced in abnormally large amounts. Conversely, if the cell makes too much of the microRNA, too few of those proteins will be produced. These sorts of changes have been linked to Tourette's syndrome and to many cancers. Alnylam and Merck hope that restoring the microRNA's levels by adding it to the cell (or, by contrast, adding something called an antagomir, which sticks to microRNAs and prevents them working) will eventually remove the disease.

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Bond markets

Not so risk-free

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Satoshi Kambayashi

Rising bond yields could spell trouble for the economy and the markets

GOVERNMENT bond markets are supposed to be the accountants of the financial world: calm, steady and rational. They are not supposed to frighten the horses. But in the days following June 7th, bond investors had a traumatic experience. The yield on the ten-year Treasury bond rose from 4.96% that day to reach 5.33% during trading on June 13th before closing just below 5.2%.

What makes the slump in bond prices all the odder is that Treasury bonds are normally regarded as the risk-free asset, the one that investors buy when they are really worried. What could have prompted the sell-off?

One thing that could cause investors to flee government bonds would be an unexpected rise in inflation. Higher inflation devastates the value of fixed-income assets, as investors found to their cost in the 1970s. But this does not look like an inflation scare. Real yields have caused the vast bulk of the move; inflation expectations have moved up by only around a tenth of a percentage point. And gold, the classic inflation hedge, has fallen in price.

Investors may well have decided that American growth will be stronger than they had previously expected. But, in the absence of inflation, faster growth need not be bad for government bonds; higher tax revenues will make it easier for the government to service the debt. Alternatively, unexpectedly strong growth ought to be good news for equities, yet the stockmarket has also fluctuated wildly.

Another potential explanation is that the markets have given up on rate cuts from the Federal Reserve this year. But the futures market suggests this hope has been dwindling for some time. Global monetary policy is generally being tightened (see article). However, this should not necessarily be bad news for long-dated bonds, if investors believe (as they seem to) that central banks will be successful in containing inflation.

This suggests that economic fundamentals may not be the primary cause for the sell-off. Big market moves like this tend to occur when investors shift their positions in a hurry. In this case, it looks as if some bond bulls decided to throw in the towel. Figures from the Commodity Futures Trading Commission, the Chicago regulator, suggest that, before the sell-off, speculators were betting heavily on lower yields. One of the most prominent bond bulls, Bill Gross of Pimco, an investment-management firm, has just publicly changed his mind.

The hedging policies of mortgage issuers may also have played a part. Because most Americans have

fixed-rate mortgages, issuers find they tend to get repaid early when bond yields fall; they hedge this risk by buying Treasury bonds. When rates rise, borrowers are far less likely to repay; that causes mortgage issuers to sell their bonds. The effect can be to exacerbate short-term moves in bond prices.

The big question, however, is whether Asian central banks have lost their appetite for American Treasuries. Part of the reason for the rise in yields was a disappointing auction of ten-year bonds, with foreign investors buying just 11% of the issue. Asian central banks had been buying Treasury bonds with their foreign-exchange reserves in an attempt to prevent their currencies from appreciating too rapidly against the dollar. Some analysts have estimated that these purchases had pushed bond yields between a half and a full percentage point below the level they would otherwise have reached.

The result was that yield curves were “inverted”—long yields were below short-term rates. When he was Fed chairman, Alan Greenspan described this state of affairs as a “conundrum”: such curves had traditionally been a harbinger of recession, but perhaps Asian central bank policies meant this signal was no longer valid.

Asian central banks may now be turning their attention to other assets. The establishment of China's sovereign-wealth fund and its purchase of a stake in Blackstone, a private-equity group, indicate that the Beijing regime may be looking for more exciting returns. Still, if this move is all about the Asian central banks shifting their reserves away from American bonds, it is odd that it has been accompanied by a rise in the dollar against the euro and the yen. True, Blackstone's shares will be denominated in dollars, but it is hard to see a change in reserve policy that would increase the appetite for dollar assets.

Whoever has been selling Treasury bonds, the result is that the conundrum has disappeared; yield curves are now sloping upwards. Sometimes a steepening of the curve can be benign, when central banks cut rates to try to stimulate the economy. But Richard McGuire of RBC Capital Markets points out that this is a “bear-market steepening”, caused by bond yields rising faster than short rates.

A higher risk-free rate will eventually raise the financing costs for everyone, from American homeowners fixing their mortgages, through hedge funds using leverage, to private-equity groups planning bids for quoted companies. It should also bear down (eventually) on economic growth.

This means that, provided that inflation is not getting out of control, higher bond yields will eventually sow the seeds of their own destruction. Slower growth and a loss of appetite for riskier assets will make government bonds look more attractive once more. But with analysts talking about yields breaking out of a 17-year downtrend (see chart), that might not happen for a while.

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Monetary policy

Closing the valve

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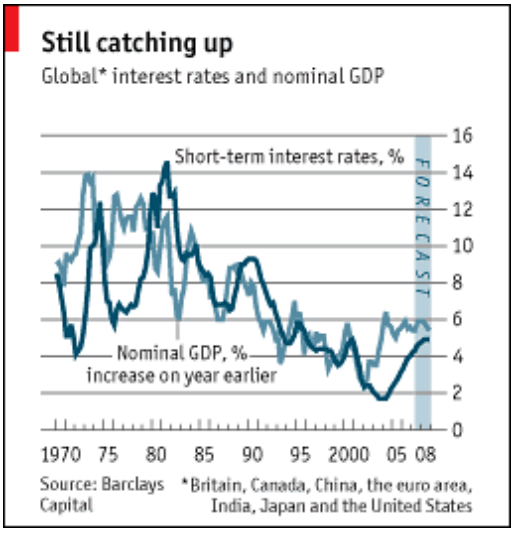
Central banks around the world still have some tightening to do

TO THE surprise of no one who was watching, on June 14th the Swiss National Bank raised interest rates by a quarter point. Next week Sweden's central bank will probably do the same. Central banks almost everywhere are in a similar mood. Last week the European Central Bank (ECB) put rates up for the eighth time in 18 months. The Bank of England refrained but will probably continue tightening policy this summer. And the Reserve Bank of New Zealand (RBNZ) lifted its official rate to no less than 8%.



America, where the federal funds rate has stood at 5.25% for almost a year, is an exception. But even there markets have gradually accepted that the Federal Reserve is not about to ease policy. The plummeting bond market is one obvious sign. The path of Fed futures is a more explicit one. In March the market was pricing in a quarter-point cut by September and another by December. Now it says rates will be flat all year.

Despite all the rate increases, monetary policy globally is still on the loose side. The chart above, supplied by Julian Callow of Barclays Capital, shows the gap between nominal GDP growth and official interest rates, a common gauge of policy, for a group of big economies: America, Britain, Canada, China, the euro area, India and Japan. In the past few years interest rates have been lower than the nominal growth rate—ie, policy has been loose, by this measure—for the longest period for 30 years. The slack is being reduced but there is still some to be taken up. In America and Canada rates are roughly equal to nominal GDP growth; elsewhere, they are below. The gap is widest in China and India.

Although inflation is scarcely taking off, the risk of it is vexing central bankers. The president of the ECB, Jean-Claude Trichet, gave warning again this week of the need for continued wage restraint. Meanwhile, wage settlements in the biggest national economy in his patch, Germany, have been picking up; pay has trailed consumer-price inflation for years. Both Mr Trichet and the governor of the Bank of England, Mervyn King, have remarked on the rapid rate of monetary growth.

Globalisation is making the central bankers' job harder. Until recently, they were able to treat globalisation as largely benign, as the prices of many goods were driven down and inflation targets became easier to meet. However, reductions in the relative prices of these goods may have been mistaken for a reduction in general price pressures, causing policy to be too loose. In fact, globalisation can cut both ways. Increases in the price of oil and other commodities have become a source of inflationary pressure around the world.

New Zealand provides one example of the difficulties. In explaining last week's rate rise, the RBNZ's governor, Alan Bollard, devoted a good deal of attention to global dairy prices, which have risen by 60% in the past six months. Demand for dairy products, especially from Asia, has been growing strongly, but exporters' supply response has been sluggish. In Europe, weather has been poor and farmers no longer receive export subsidies for milk powder. The price of corn, on which many cattle are fed, has risen because of rising demand for grain to produce biofuels such as ethanol. And a drought in Australia has limited production there.

For New Zealand, another dairy exporter, this means an improvement in its terms of trade. For Mr Bollard, it means a headache. Rising dairy prices will push up the consumer-price index, but not by much. More troublesome is the boost to rural incomes: if spent, this will raise domestic demand at a time when the economy is already tight. Although higher export prices should push up the exchange rate (see article), dampening inflation, Mr Bollard thinks rising commodity prices have helped stoke inflationary pressures.

That inflationary expectations have not budged much invites a benign explanation: global economic growth looks robust, but central banks will succeed in keeping inflation under control without hitting the brakes too hard. That does not mean, of course, that they will necessarily have the skill and luck required.

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Currencies

A warning shot

Jun 14th 2007
From The Economist print edition

New Zealand is one of many countries dealing with strong exchange rates

Get article background

CONFRONTED by a growing army of speculators, on June 11th the Reserve Bank of New Zealand decided enough was enough—and let rip with the peashooter. It intervened in foreign-exchange markets to weaken a currency that had hit its highest level since it was floated in 1985. The bank struck after it had raised its official cash interest rate to a daunting 8% the week before, eager to halt rising inflationary pressures.

It was a well-timed intervention. Japanese savers, earning next-to-nothing in yen, have poured into investments based on higher-yielding currencies, such as New Zealand's. Other investors have also taken advantage of the “carry trade”, enabling them to borrow at low interest rates in yen and reinvest at higher rates overseas. Like almost everyone else, they were caught by surprise and the New Zealand dollar softened.

New Zealand, with the highest interest rates in the industrialised world, is a special case, but it is not alone in feeling the mixed blessings of a currency on steroids. Other countries with non-greenback dollars also have unusually strong exchange rates. Australia's dollar hit its firmest level in 18 years this year, and the Canadian dollar has risen 30% against its American counterpart in the last three years.

There are some common elements fuelling the strength. All have robust economies and respected central bankers. According to Stephen Jen of Morgan Stanley, they reap the benefits of being open, developed economies, yet partly thanks to the commodities boom, they enjoy some of the fast-growing attributes of emerging markets. Asian economies have snapped up dairy and wood products from New Zealand and metals from Australia, and have helped raise the prices of Canada's oil and natural gas, boosting export revenues. Cross-border takeovers are also putting upward pressure on currencies. The bidding for Bell Canada, the country's largest phone company, involves groups with both domestic and foreign investors.

A strong currency can be a curse for exporters, however. In New Zealand's case, the carry trade has given the kiwi dollar an extra upward push. With the yen nearing five-year lows against the American dollar this week, such trades may well continue.

As rising interest rates in some countries exacerbate the differences between high-yielding currencies and low-yielding ones, such as Japan's, New Zealand's predicament may become more familiar. Most nations with strong currencies should refrain from following its lead. After all, peashooters are of little use against a determined foe.

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Buttonwood

Signs of the beast

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Three things investors should be fretting about

INVESTORS have had a pretty good time of it over the past four years. Almost every asset has increased in price, including art, emerging-market shares, junk bonds and property. Indeed, things have almost been too good to be true.

Some commentators, such as Tim Lee of pi Economics, a research firm, have consistently warned that investors have become complacent. At each setback, the Jeremiahs have been tempted to echo W.B. Yeats and ask “what rough beast, its hour come round at last, slouches towards Bethlehem to be born?”

Might they be right this time? The “rough beast” in question could be an end to the global “liquidity bubble” that has been fuelling asset prices, allowing private-equity groups to raise record sums and hedge-fund managers and Russian plutocrats to buy up contemporary art, Mayfair property and luxury yachts.

At the heart of their argument is the belief in a grubby bargain between Asian savers and American consumers. The former have saved too much and kept yields low around the globe. The latter have spent too much and kept activity buoyant.

But the recent rise in bond yields may indicate that this benign scenario is coming to an end. The worry is that real (after-inflation) yields have been rising. The real yield is the price that balances the demand and supply of savings. So higher yields indicate a change in this balance, perhaps because Asian banks are losing their enthusiasm for American Treasury bonds or because more money is going into the real economy, through higher capital expenditure.

Investors have become familiar with the idea of the “great moderation”—that inflation and economic growth have become less volatile over the last 20 years, and that this has led to lower volatility (and higher prices) in financial markets.

Stephen Roach of Morgan Stanley has suggested that we are now seeing the “great normalisation”—the return of monetary policy and financial-market valuations to the conditions prevailing before the stockmarket bubble burst in 2000. The first step was the reduction of monetary accommodation by central banks. The second is the rise in long-dated bond yields.

This process could easily have adverse effects on other markets. After all, the Treasury-bond yield is the risk-free rate, off which other assets are priced. At the margin, higher yields could tempt investors out of risky assets and into a safe haven.

But many will be wary of getting too bearish too soon, given that market blips in May 2006 and February this year were quickly reversed. The bears have been proved wrong before.

There are probably three key signs that will indicate whether the recent sell-off is becoming more significant. The first is the yen, which has been used as a source of speculative finance for the “carry trade”; borrowing a low-yielding currency to invest in riskier assets. If the yen starts to strengthen, that will indicate speculators are losing their appetites. So far, however, there has been no sign of such a shift; indeed, higher Treasury yields may only encourage the carry trade.

The second is a rise in credit spreads, the higher yields paid by riskier borrowers such as emerging-market governments and heavily indebted companies. There has only been a modest increase so far. But Tim Bond of Barclays Capital reckons it is only a matter of time before the Treasury-bond sell-off leads to higher spreads. A more optimistic view is taken by Stephen Dulake of JPMorgan, who reckons that the continued strength of corporate profits will keep spreads in check.

The level of spreads is particularly significant because private-equity groups have been arbitraging between the debt and equity markets, using cheap debt to buy companies. Were that trade to become less profitable, a key support for stockmarkets would disappear,

The third factor is inflation. There is little sign of higher inflation expectations at the moment. But if central banks look like they are failing to keep the lid on the problem (and many people worry about the recent surge in food prices), the recent sell-off in the bond market will be the just the prelude to much higher rates.

This need not be disastrous for all assets. Guy Monson, of Sarasin Chiswell, an investment group, argues that blue-chip equities might be the asset class best placed to withstand higher inflation. Gold and other commodities would probably prosper. But a world in which inflation, bond yields and short rates were trending higher would be the complete opposite of that which has prevailed during the long bull run. A rough beast would definitely be at large.

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Blackstone's public offering

Dramatic entrance

Jun 14th 2007 | NEW YORK
From The Economist print edition

Insiders strike gold. Will investors too?

AP

The performer

EVERY good writer of television drama knows the value of keeping the audience hungry for further instalments. So, it would seem, do the men who run Blackstone, a private-equity group that is about to sell a chunk of itself to the public. In the run-up to its eagerly awaited share offering, information about the inner workings of the secretive outfit has been released in tempting dribs and drabs. This might have been unbearable, were it not for a few cathartic *coups de théâtre*: first the sale of a stake of almost 10% to the Chinese government, and now the disclosure of the vast spoils accruing to Blackstone's leaders.

The mightiest of them, co-founder Steve Schwarzman (pictured), is due to sell stock worth up to $677m, leaving him with a 24% stake valued at almost $8 billion. When Blackstone's shares start trading, perhaps later this month, he will officially overtake Rupert Murdoch and Steve Jobs on rich lists. According to this week's filing, Mr Schwarzman earned $398m last year, almost double the combined pay of the bosses of Wall Street's five largest investment banks. Obscene, some cry. But almost every penny came from gains in investments, rather than salary or bonus. If only all executive pay was so closely tied to performance.

A more reasonable concern is that the hordes clamouring to invest in the offering get caught up in a shocking denouement, as credit tightens and prices of shares fall after they are issued. Signs that the market may be past its prime include rising bond yields and reports of some buy-out shops having to haggle with previously pliant lenders. “Everyone knows this is a cyclical industry,” says Colin Blaydon of the Tuck School of Business's Centre for Private Equity. “Before long, the perfect storm of value creation we've seen over the past couple of years is sure to die down.”

But when it does, it may not be the private-equity houses that feel the most pain. Some of the companies that they own are pretty much default-proof, thanks to the loosening of debt covenants by deal-hungry banks competing to provide loans. It is the ultimate holders of this debt—largely, but not exclusively, hedge funds—which will be hit hardest. Any investment banks with bridge loans or bridge equity on their books that they have failed to syndicate may also suffer.

Moreover, for today's private-equity giants traditional buy-outs are just one of several lines of business. They all have big and burgeoning restructuring arms, which could soon be jostling for distressed assets. Some of their best investments were made in the recession years of 1981, 1991 and 2001, Mr Blaydon points out. Clouds may form over Blackstone's new shareholders, but they should have a silver lining.

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Securities lawsuits

The Stoneridge showdown

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Officials part ways in a class-action case that may have a worldwide impact

IT IS, by general consent, the most important securities-litigation clash for a generation. A case now before the Supreme Court, *Stoneridge v Scientific-Atlanta*, is shaping up to be a key test of attitudes towards shareholder class actions. A decision in favour of aggrieved investors would greatly increase the number of companies on which trial lawyers could train their sights. A ruling the other way would be a crushing defeat for the plaintiff's bar. Adding to the suspense, the government bodies with an interest in the case cannot agree on a common position.

The case involves a cable company, Charter Communications, which used a transaction with two suppliers of set-top boxes to inflate its revenues. Shareholders sued not only the company but the vendors too, claiming that they participated in the fraud, even though they may not have been aware of the misreporting. Led by the legendary Bill Lerach, plaintiff lawyers have lobbied ferociously for the principle of going after third parties, known as “scheme liability”.

The Securities and Exchange Commission (SEC) is backing Mr Lerach's lot, thanks to a change of heart by its Republican chairman, Christopher Cox, traditionally no friend of the plaintiff's bar. Mr Cox urged the Department of Justice to fall in behind it, but this week it declined to do so. It has a month to decide whether to support the defendants or offer no opinion.

The Treasury is at odds with the SEC, too, fearing that a ruling in favour of investors would further damage American competitiveness. Many foreign firms that choose to list their shares elsewhere point to America's “litigation lottery” as the principal reason. Although filings of securities class actions have been falling since 2005, the overall value of settlements has continued to rise.

Bankers and accountants are watching just as closely as cable-box makers. In a similar case, Mr Lerach's firm sued Enron's financial advisers on behalf of shareholders, claiming that they facilitated the book-keeping shenanigans at the now-defunct energy trader. He lost—though not before collecting billions from banks that settled early. He has lodged an appeal with the Supreme Court and wants the case joined with *Stoneridge*.

What will the court do? Business is encouraged by its track record: a steady pruning of plaintiffs' rights since the 1970s. (Congress, too, has made it harder to bring class actions.) A number of its justices are thought to sympathise with the view that scheme liability is best left to the SEC, which has the power to pursue aiders and abettors under its Rule 10b-5.

Some lawyers in Washington even suggest that Mr Cox only sided with investors because he was convinced that they had almost no chance of support from the Supreme Court. “He's been accused of being too close to business and this is a convenient way to dispel that notion without really changing anything,” says one.

But with numerous fine legal points at issue, the outcome is uncertain. An unfavourable ruling would send a chill through boardrooms, and not only in America.

If suppliers and advisers can be dragged into class actions, it would no longer even be necessary to issue shares in the United States to incur securities liability, points out Peter Wallison of the American Enterprise Institute, a think-tank. Any firm, anywhere, doing business with American companies would have to live with the risk that the transaction could later be portrayed as fraudulent or deceptive. And painting such pictures is what trial lawyers do best.

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Retail banking

Branching out

Jun 14th 2007 | NEW YORK
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A bookshop? A yoga studio? No: your local bank. And it is out to get you

WALKING into one of Umpqua's many “stores” is a strange, if pleasurable, experience. There are plush chairs where you can sip free Umpqua-branded coffee, a shop peddling books and music, computer terminals to surf the internet and, often, a yoga class. The smiling employees—all trained by Ritz Carlton, a luxury hotel chain—drop a chocolate onto a silver tray with customer receipts. That Umpqua is a bank comes as a surprise. But a retail bank Umpqua is—small and fast growing, with 144 branches in western America, up from only five 12 years ago.

Umpqua's approach may seem whimsical but it was the result of careful study over a decade ago when Ray Davis, its chief executive, noted a shift in people's relationship with their bank. The cornerstone of local banking had been dealing with simple transactions—depositing cheques and helping customers. But the advent of ATMs and call centres was sucking activity out of the branch. “How do you keep the branch relevant when customers increasingly do not need to walk through its doors?” Mr Davis asked.

The question was prescient. Today, the popularity of internet banking means even fewer transactions are done at the counter. According to Celent, a consultancy, 40% of American households bank online, almost twice the proportion that did in 2002. TowerGroup, a research outfit, reckons that by 2010 most transactions will have migrated online.

Such a switch looks all the more likely because of the successful “direct banks” that have been launched in the past couple of years by Citigroup, HSBC and non-bank firms such as Charles Schwab, an online broker. These online businesses have begun attracting not just savings accounts but checking accounts, too—the most profitable balances at the branch.

The shift away from cheques to plastic and digital payments has also played a role. Traditionally, processing cheques accounted for around two-thirds of a teller's job, says TowerGroup. Even making loans has become automated at some banks, such as Spain's BBVA, which allows certain customers to withdraw pre-approved loans from an ATM without ever speaking to a credit officer.

None of this means that the branch is dead. Indeed, small businesses still make frequent use of bank branches, as do individuals seeking sophisticated products. But all the business now done outside a bank's four walls means the role of the branch must change. That is especially important for banks that have greatly expanded their branch networks in recent years, at no small expense.

Those that do may have history on their side. Mike Redding of Accenture, a consultancy, notes that in Scandinavia in the 1990s, big banks closed down swathes of branches and pushed customers online, expecting cost savings. Instead, the banks lost lots of customers, their revenues stalled and they ended up back-pedalling. “The branch matters,” says Mr Redding.

Fat fees, low-fat ice cream

Umpqua's style of business is further removed than most from the normal ways of retail branch banking. Tellers have been replaced by generalists (called “universal associates”) who are paid largely on sales commissions—rare in banking. Each branch has in its budget some cash that every quarter must be spent on customers—a bouquet of flowers for a sick customer, perhaps, or ice cream on a hot day.

Indirectly the customer pays for such service, of course—Umpqua's fees are not cheap. But Mr Davis believes clients see it as a worthwhile expense. “In the digital age, where everything from books to banking has become commoditised, you have to compete on more than price.”

Umpqua is one of a few banks that woo customers by selling non-financial products as well. Another pioneer in this field is BBVA, which flogs a wide array of wares—from houses to cars to health care—in a few branches. BBVA believes it can wield its vast financial firepower (it is Spain's second-largest bank by assets) to buy products more cheaply than consumers could and distribute them through its branches at a profit. Customers could use BBVA to finance their purchases.

This is still being tested but executives have high expectations. “It is absurd to think that a branch can be very profitable without pushing more products and services through it,” says BBVA's José Olalla. Selling stuff is also a way to draw new customers in, he hopes.

Along the same lines, BBVA is rolling out the “Duo branch”, which makes its assets sweat even harder. In mid-afternoon, when banks usually close in Spain, the branch is transformed at the flick of a switch (and with the clever use of curtains) into an outlet targeted at immigrants, offering cheap telephone calls home, remittance services, legal advice and the like. The idea is that eventually the new arrivals to Spain will become bank customers. But in the meantime, its main clients are given no indication about the branch's moonlighting activities.

Other banks, perhaps not as ambitiously, are finding new ways to bring life back into the branch. They include investments in technology to free staff from mundane activities so they can concentrate on selling new services to customers. The newest Bank of America branches use palm-identification software to give customers access to security-deposit boxes without the assistance of an employee. As part of a £400m ($800m) refurbishment project in Britain, HSBC is building branches with a clearly demarcated “self service” section. Much of the rest of the branch is given over to serving well-heeled customers. “You want to use your most expensive overhead—the branch—for your highest-value transactions and automate the rest,” says Joe Garner of HSBC.

Spain's largest bank, Santander, has gone a step further and rigorously profiles customers to see what new products it can sell them. After online analysis of their earning and spending patterns, it automatically assigns them a credit line—which releases staff to sell new products. “Most big banks are still struggling to do this,” says Jerry Silva of TowerGroup.

Fortunately for them, customers are creatures of habit when it comes to banking—perhaps because they also want their money managed conservatively. The more choice clients have, however, the more likely it is that their habits will change as well.

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Economics focus

Doffing the cap

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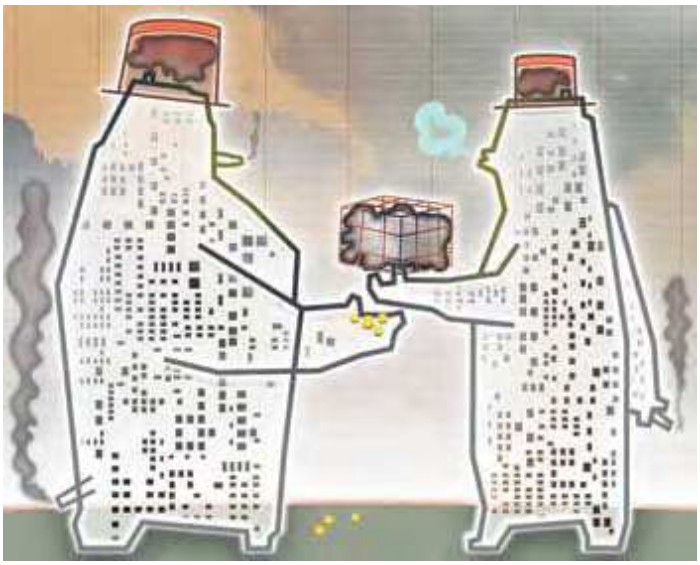
Jac



Tradable emissions permits are a popular, but inferior, way to tackle global warming

THE pressure for political action on climate change has never looked stronger. Even George Bush has now joined the leaders of other rich countries in their quest to negotiate a successor regime to the Kyoto protocol, the treaty on curbing greenhouse gases that expires in 2012.

Too bad, then, that politicians seem set on a second-best route to a greener world. That is the path of cap-and-trade, where the quantity of emissions is limited (the cap) and the right to emit is distributed through a system of tradable permits. The original Kyoto treaty set up such a mechanism and its signatories are keen to expand it. The main market-based alternative—a carbon tax—has virtually no political support.

A pity, because most economists agree that carbon taxes are a better way to reduce greenhouse gases than cap-and-trade schemes. That is because taxes deal more efficiently than do permits with the uncertainty surrounding carbon control. In the neat world of economic theory, carbon reduction makes sense until the marginal cost of cutting carbon emissions is equal to the marginal benefit of cutting carbon emissions. If policymakers knew the exact shape of these cost and benefit curves, it would matter little whether they reached this optimal level by targeting the quantity of emissions (through a cap) or setting the price (through a tax).

But in the real world, politicians are fumbling in the dark. And that fumbling favours a tax. If policymakers set a carbon tax too low, too much carbon will be emitted. But since the environmental effect of greenhouse gases builds up over time, a temporary excess will make little difference to the overall path of global warming. Before much damage is done to the environment, the carbon tax can be raised.

Misjudging the number of permits, in contrast, could send permit prices either skywards or through the floor, with immediate, and costly, economic consequences. Worse, a fixed allotment of permits makes no adjustment for the business cycle (firms produce and pollute less during a recession).

Cap-and-trade schemes cause unnecessary economic damage because the price of permits can be volatile. Both big cap-and-trade schemes in existence today—Europe's Emissions-Trading Scheme for carbon and America's market for trading sulphur-dioxide permits (to reduce acid rain)— suggest this volatility can be acute. America has had tradable permits for SO_2 since the mid-1990s. Their price has varied, on average, by more than 40% a year. Given carbon's importance in the economy, similar

fluctuations could significantly affect everything from inflation to consumer spending. Extreme price volatility might also deter people from investing in green technology.

Even without the volatility, some economists reckon that a cap-and-trade system produces fewer incentives than a carbon tax for climate-friendly innovation. A tax provides a clear price floor for carbon and hence a minimum return for any innovation. Under a cap-and-trade system, in contrast, an invention that reduced the cost of cutting carbon emissions could itself push down the price of permits, reducing investors' returns.

To avoid these pitfalls, some cap-and-trade advocates want to set price floors and ceilings within carbon-trading systems. One of the most prominent bills in America's Congress, for instance, includes a “safety valve”. If the price of carbon rises beyond a threshold, the government will allocate an unlimited supply of permits at that price. Such reforms, in effect, make a cap-and-trade system work more like a carbon tax.

A third advantage of carbon taxes is that they raise revenue. Governments can use this cash to reduce other inefficient taxes, thereby cutting the economic costs of carbon abatement. Or they can use the money to compensate those, such as the poor, who are hit disproportionately hard by higher fuel costs.

The great green giveaway

Cap-and-trade schemes, in contrast, have traditionally given away permits, which leaves no room to reduce the economic costs of climate control by cutting taxes elsewhere. But here, too, change may be afoot. To mimic the advantage of a carbon tax, many cap-and-trade fans now want governments to auction at least a share of the permits.

All of which raises an important question. If cap-and-trade schemes are to be reformed so that they look more like carbon taxes, why are politicians so reluctant to impose carbon taxes in the first place? One reason is that their environmental benefits are harder to explain. It is intuitively easier to grasp how a carbon cap will slow global warming. Taxes are also more prone to ideological caricature, particularly in America, where many conservatives argue instinctively that all taxes are bad. Too many politicians pretend that carbon taxes will hurt consumers more than a cap-and-trade scheme, even though the cost of carbon permits will be passed on to consumers just as quickly as a tax.

But the biggest problem, at least politically, is that carbon taxes are transparent and simple, whereas cap-and-trade systems are complicated and conveniently opaque. Under a cap-and-trade scheme, governments can pay off politically powerful polluters (such as the coal industry) by giving them permits. Even more important, rich countries can pay poorer ones to cut their emissions without any cash changing hands between governments. Under a carbon tax such transfers must go through the government's budget. And that can be politically tricky. However sensible it sounds to an economist, American voters may be loth to see their tax dollars funding fat cheques for China. Add in these political arguments and the choice between a carbon tax and cap-and-trade becomes less obvious. Politicians are heading down the second-best path to combat climate change, but it may be the only one that leads anywhere.

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Correction: Rajeev Malik

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From The Economist print edition

In last week's article on India's economy, we mistakenly attributed the word “foolishly” to comments by Rajeev Malik of JPMorgan referring to the government's management of capital inflows. We regret the error, which has been corrected online.

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Rapid diagnostic tests

More haste...

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Rapid diagnosis helps doctors in poor countries to treat people wisely—unless the tests come up with the wrong result

Alamy

IN MEDICAL diagnosis, speed is important. But so is accuracy, and the two are not always compatible. At a meeting held recently by Médecins Sans Frontières, an aid agency, at St Bartholomew's Hospital in London, Derryck Klarkowski explained why he worries about this conflict.

Mr Klarkowski advises a project in Bukavu, in the Democratic Republic of Congo, that frequently tests people for HIV. In 2004 he realised that the rapid-diagnosis kits which the project was using suffered from a weirdly high false-positive rate—in other words, telling people they were infected when, in fact, they were not.

That is not quite as bad as giving someone who is infected a clean bill of health, and thus both denying him treatment and risking his innocently transmitting the virus to others. But it is not good. Social prejudice against the infected means that a false positive also causes harm. And there is the risk, as well, that a pregnant woman might choose to abort her fetus rather than give birth to an infected child.

A few of the patients in Bukavu tested positive for the virus twice, but over the following year showed no signs of having dwindling numbers of the type of immune cells normally destroyed as HIV replicates. Their suspicions aroused, Mr Klarkowski's colleagues decided to retest 20 of these patients. All 20 were HIV negative. They then checked 229 positive patients with the gold-standard laboratory test, a Western blot. More than 10% of the rapid tests were giving false bad news.

That was worrying. First, Mr Klarkowski worried that the project was wrongly storing or was using the kits incorrectly. But, although this side of affairs was not perfect, no out-of-the-ordinary process seemed to explain the result. He then worried that some other bug in Bukavu could have been causing the initial tests to give a positive reading.

This seems the most likely answer, because the patients are frequently exposed to lots of germs. It takes a month for the body to make antibodies to a newly encountered pathogen, so a bunch of immune-system cells called B lymphocytes first fire back in a general way. Occasionally, that counterattack might involve antibodies with features similar enough to those of HIV antibodies to fool an HIV test into a positive diagnosis.

Decisions, decisions

Mr Klarkowski is not sure what the misleading bug involved is. False-positive hotspots have also been reported from the same type of test in Uganda and India. When researchers looked for similar errors in Nigeria, though, they found none.

Helen Counihan, who also spoke at the conference, has an even more complicated task than Mr Klarkowski—to balance false positives and false negatives. She works with the Malaria Consortium, an international not-for-profit organisation that is advising Uganda's Ministry of Health which type of rapid-diagnostic test it should recommend for the disease. In this case two tests are available but they have different patterns of error.

The creature that causes malaria is a rather different beast to HIV. As a result, instead of looking for an antibody against it, malaria tests are tuned to proteins made by the parasite itself.

One of the tests detects histidine-rich protein II. This works well and does not need to be stored in a refrigerator. It is poor, however, at distinguishing people infected with the malarial parasite from those in whom the protein is hanging around after all the parasites have died. The second test, which is sensitive to an enzyme called plasmodium lactate dehydrogenase, allows more false negatives to creep in generally, and notably in children under five years old. Also, it is sensitive to the heat. But it is better at distinguishing recovered patients from those still infected.

In malaria, false negatives are especially bad for children, because they can become severely ill in a matter of days if they are not treated quickly. Most deaths from malaria are among the under-fives. False positives, however, may misdirect the treatment of people who are suffering from other fevers. They also waste drugs in a way that poor countries can ill afford.

In Uganda Ms Counihan went for the false positives. She is recommending the histidine-rich protein II test. In her trial this found 98% of all true cases. However, 22% of children and 50% of adults given positive diagnoses were not actually infected. As in so much of life, you pays yer money and you takes yer choice.

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Vaccines

A new health food

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Growing vaccines in rice may make them more stable and more effective

Get article background

GETTING two for the price of one is always a good bargain. And according to a paper in this week's *Proceedings of the National Academy of Sciences*, that is what Tomonori Nochi of the University of Tokyo and his colleagues have done. Using genetic engineering, they have overcome two of the limitations of vaccines. One is that they are heat-sensitive and thus have to be transported along a “cold chain” of refrigerators to the clinics where they are used. The other is that, although they stimulate immune responses inside the body, they often fail to extend that protection to the outside, where it might prevent bacteria and viruses getting inside in the first place.

In this context, the outside is not the skin: that is dry and hostile to germs. It is the damp and welcoming surface of places such as the lung and the gut that are at risk. Although these are casually called internal, technically they are not. Any nasties in the gut or lungs have to cross the walls of those organs before they can multiply inside the body.

Dr Nochi's genetic engineering involved growing the vaccine in rice. To prove the principle, he chose cholera, but it should work with other vaccines as well. With cholera, the immune response is induced by what is known as the cholera toxin B-subunit. This is a protein, and Dr Nochi took the gene that encodes it and inserted that gene into the genome of rice. Next to the B-subunit gene itself, he inserted a second piece of DNA called a promoter. This, as its name suggests, promotes activity in an adjacent gene. Promoters themselves are activated by other molecules, and whether they are switched on or not depends on whether the cell they are in provides the necessary stimulation. In this case Dr Nochi picked a promoter that is active in the tissue of rice grains.

It was then just a question of growing the rice and feeding the resulting grains to some experimental mice to find out what would happen. The first thing that happened was that the grains protected the B-subunit from being broken down in the stomach, thus overcoming one of the regular bugbears of protein-based drugs: that they cannot be given by mouth, because they will be digested. This is a problem with today's cholera vaccine which is indeed taken by mouth and therefore affords poor protection. When the B-subunits got to the intestines they did exactly what Dr Nochi hoped and induced the production of antibodies and the secretion of those antibodies into the mucous coating of the intestinal wall. Dr Nochi's mice really were protected. When he fed them cholera toxin, they did not get sick.

On top of all this, he got as good a response with rice that had been stored at room temperature for 18 months as he did when he used fresh grains. For a vaccine against a disease that is found predominantly in poor countries—places that tend to lack refrigerators and have only intermittent power to run those that do exist—that is an enormous advance. If Dr Nochi's finding can be translated into a product that is safe and effective for people, it will be a big boost to the health of the world's poor.

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Artificial life

Patent pending

Jun 14th 2007
From The Economist print edition

Move over Dolly. Synthia is on her way

Get article background

YOU have to hand it to Craig Venter, he is not someone who thinks small. The latest adventure of the man who was the first to sequence the genome of a living organism (three weeks after his grant request to do so was rejected on the grounds it was impossible), the first to publish the genome of an identifiable human being (himself) and the first to conceive the idea of sequencing the genome of an entire ecosystem (and to enjoy a nice cruise across the Pacific Ocean in his yacht while he did so) is curiously reminiscent of the incident that made him a controversial figure in the first place. That was when, 16 years ago, he attempted to patent parts of several hundred genes—the first time anyone had tried to take out a patent on more than one gene at a time.

This time, he is proposing to patent not merely a few genes, but life itself. Not all of life, of course. At least, not yet. Rather, he has applied for a patent on the synthetic bacterium that he and his colleagues Clyde Hutchison and Hamilton Smith have been working on for the past few years.

The patent application itself was filed without fanfare some eight months ago. But it was only at the end of May that the slowly grinding bureaucracy of America's patent office got round to publishing it. The central claim is to what Dr Venter calls the “minimal bacterial genome”. This is a list of the 381 genes he thinks are needed to keep an organism alive. The list has been assembled by taking the organism he first sequenced, *Mycoplasma genitalium*, and knocking out each of its 470 genes to see which ones it can manage without. The theory—and the claim made by the patent—is that by synthesising a string of DNA that has all 381 of these genes, and then putting it inside a “ghost cell” consisting of a cell membrane, along with the bits and pieces of molecular machinery that are needed to read genes and translate them into proteins, an artificial organism will have been created.

Given that the ghost cell will be an enucleated natural bacterium rather than a synthetic structure in its own right, the new bug will not be a completely man-made creature. Nevertheless, if the three researchers can pull it off, they will have achieved an impressive piece of genetic engineering—or, rather, of synthetic biology as this high end of the field is now usually called. And there is every reason to believe that they will be able to pull it off. In 2003 the same team, working then as now at Dr Venter's research institute in Rockville, Maryland, were the first to produce a truly viable synthetic virus. And techniques have moved on since then.

The patent does not claim that an organism based on the minimal bacterial genome has yet been made—and it hasn't. It is more a question of the Venter Institute getting its retaliations in first. Nevertheless, the mere filing of the patent has upset some people. Among the dischuffed is ETC Group, a Canadian bioethics organisation whose eagle-eyed spotters noticed the publication of patent 20070122826 last week. They have asked Dr Venter to withdraw the patent—and, on the assumption that he will not, have also asked the patent office to reject it on the grounds that it is contrary to public morality and safety.

ETC's objections seem twofold, and also slightly contradictory. One objection is that the patent's claims are too widely drawn. It attempts, for example, to reserve the right to any method of hydrogen or ethanol production that uses such an organism. (Dr Venter thinks synthetic biology is going to be important as a way of making fuels.) It also, bizarrely, claims an interest in the genes the three researchers have identified as non-essential, as well as the essential ones.

To the extent that sweeping claims may stifle innovation, these are certainly things that need to be considered. However, the more profound objection ETC has seems to be based on the idea that there are areas where mankind should not meddle. As Pat Mooney, the group's boss, put it, “For the first time, God has competition.” No doubt Dr Venter, hardly famous as a shrinking violet, will be amused by the comparison.

ETC's argument has some force. Synthetic biology is developing fast and it is easy to see it being used out of malice. That said, one of the advantages of a minimal genome is that the genes removed, while not essential for survival, are essential for robustness. A bug relying on such a genome could not possibly live in the wild if it accidentally escaped. Also, the biologists in the field are as concerned as anybody that the subject develops safely. They have been asking for regulation rather than resisting it, and have already established codes of conduct to try to stop the malicious synthesis of pathogens.

Nevertheless, ETC is hoping to provoke a debate. And to give people a name to hang on to in that debate it suggests nicknaming *Mycoplasma laboratorium*, as the application calls the putative invention, as “Synthia”. The organisation hopes this name will stick in the popular consciousness in the way that Ian Wilmutt's cloned sheep Dolly did. Indeed, it is rather a good name. Given the affection that Dolly attracted once the shock of her existence had been absorbed, perhaps Dr Venter—himself no slouch at publicity—will adopt it.

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Conservation

Manners!

Jun 14th 2007
From The Economist print edition

Condors are taking the concept of junk food to an entirely new level

NORTH AMERICA'S largest bird, the Californian condor, was recovered from the brink of extinction in the 1980s by means of an intensive captive-breeding programme run by researchers at the San Diego and Los Angeles zoos. The project started with the last 27 condors left on the planet and has produced well over 200 chicks to date. But hatching a lot of condor chicks is only the first step. For a species to recover fully, it must be able to survive and reproduce in the wild, and this is where things are going wrong.

In 1992 captive-bred condors started being released into the wilds of California, and later into Arizona and Mexico. After the release of 242 birds there have been 24 breeding attempts in the wild. Only seven of these have resulted in successful fledglings. This poor result led researchers at Conservation and Research for Endangered Species (CRES), in San Diego, and America's Fish and Wildlife Service to analyse the failed nest sites and dead nestlings to see if they could identify a problem. What they found was junk—literally.

Of 13 nest sites studied, ten had pieces of junk in them. The junk ranged from bottle caps and ring-pulls to broken glass and PVC pipe fragments. Of the ten nestlings that were examined, all were suspected to have been harmed by junk, and two were certainly killed by it. One chick, indeed, had consumed 37 bottle caps, a number of electrical connectors, several bolts, some pieces of plastic piping and even several shards of glass before dying.

Californian condors appear to have a penchant for collecting pieces of junk, incorporating them into their nests, and feeding them to their nestlings. It is a bizarre behaviour, but one that Michael Wallace, one of CRES's researchers, believes he understands. His theory is that junk collecting has something to do with the fact that bone chips are a normal part of a growing condor's diet. The condor parents go out searching for carcasses, find rubbish dumps instead, collect bits of plastic and metal from among the refuse—believing the hard pieces to be bone—and feed these things to their young. Although the young scavengers' digestive systems might be well adapted to digesting bone fragments, they are not suited to handling plastic, metal and glass.

Dr Wallace and his colleagues are undaunted by this problem and have already set up two programmes they hope will put an end to the birds' junk-food habits. The first programme is simple. It involves researchers swapping any junk they find in a nest for fragments of bone. That both deals with the immediate problem and, they hope, reminds the condors what they are really supposed to be looking for.

The researchers are also trying a programme they call Micro-Trash Aversion Training. This is, in essence, electric-shock therapy for condors. They snatch junk-food addicts from the wild and put them in a large cage at San Diego Zoo's Wild Animal Park. In the cage, the condors are given a choice. On one side is a dead animal, on the other, a smelly, electrified rubbish dump. If the condors try to pick up rubbish, they receive a shock. The researchers are hoping that the shocks will teach the birds not to eat from dumps and, more importantly, that the adult condors will in turn teach this information to their young.

An earlier problem suggests that the new programme has a good chance of working. When captive condors were first released into the wild, they frequently perched on electrical towers and got electrocuted on take-off. To persuade the birds to stay away from power lines, all condor candidates for wild release were raised in a cage with a wide variety of perches. The cage included one particularly tall perch that closely resembled an electrical tower and was booby trapped to give birds landing on it a mild shock. After the electrical-tower-therapy programme was started, the number of condor electrocutions dropped enormously.

A pilot version of the new electric-therapy programme has just been tried on two condor parents who had had three chicks in the wild and appeared to have killed all three by feeding them junk. They were collected and put in the therapy cage for a year. Both frequently tried to eat from the electrified dump, but eventually they gave up and ate the carcasses instead. These two birds are now back in the wild and

raising their fourth chick. This chick is a month old and doing well. Whether it passes its new manners to its own offspring remains to be seen.

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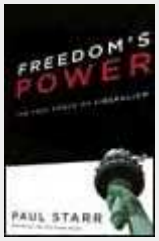
Political liberalism

To the rescue of liberalism

Jun 14th 2007
From The Economist print edition

The history, divisions and contradictions of political liberalism

Freedom's Power: The True Force of Liberalism
By Paul Starr



Basic Books; 276 pages; $26 and £15.99

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Daniel Pudles

PAUL STARR, an American political thinker, deserves a bravery award. In “Freedom's Power” he sets out to rescue the tradition of political liberalism from what he sees as three distinct kinds of attack or torment. Tackling his task historically, he traces modern liberalism from its roots, when it tried to limit arbitrary power in the 17th and 18th centuries, through the growth of liberal democracy to the disputed legacy of liberal ideas today.

Mr Starr's first and least serious tormentors are the rival sloganeers, to right and to left, who have bent the word liberal into a term of abuse. Liberals have always looked a soft target. Lenin scoffed that they would thank executioners for liberating their souls from earthly clay. The poet Robert Frost jeered that liberals do not take their own side in a fight. And an old Texas campaign proverb has it that all you will ever find in the middle of the road is a dead jack rabbit.

To such raillery Mr Starr replies with a counter-jibe of his own. Think of the systems experimented with in

the past 100 years: fascism, communism, populism and authoritarianism. If liberals are so weak and woolly, he reasonably asks, how come liberal democracy won?

This is innocent fun. The author's next two tormentors are a tougher proposition. Call them, respectively, traditional conservatives and right-wing liberals. Mr Starr believes that liberal democracy's many elements can be smoothly reconciled. Others point out the difficulties. A concept that covers, say, Brazil, Sweden, Taiwan and the United States clearly needs elastic. But any liberal democracy has to include, in some combination, individual liberty and economic freedom, equal rights, mutual tolerance, universal suffrage and accountable government under the rule of law. Many people, though not all, now add state responsibility for social equity: helping the needy and avoiding undue discrepancies of wealth.

Traditional conservatives worry that liberals overdo individual liberty. Modern liberal societies, they fear, have encouraged a disengaged, amoral selfishness. Mr Starr thinks they worry too much. He is probably correct. But he spends too little time defending his position.

One way to interpret the conservative complaint is to hear it as a plea for everyone to pitch in, to think of neighbours and put something back into society. That is fine, liberals right or left can both agree, so long as no one is compelled to be community-minded. More dangerously, it is also possible to hear the message as an intoxicating call to submerge yourself in some larger whole: a nation, community or creed. With the growth of religious extremism in mind, Mr Starr might have dwelled longer on that anti-liberal perennial.

Mr Starr's main concern, however, is challenging the right-wing liberal story of what went wrong with the liberal tradition. At issue is the proper power of the state. Classic liberalism, the right-wing story goes, went off track when liberals became social reformers at the end of the 19th century. Or perhaps it was after the second world war, when liberals backed the welfare state.

On one side, according to this story, are genuine, small-government, free-market and right-wing liberals; on the other corrupted, big-government, interventionist and left-wing ones. (Europeans keep, or used to keep, all that clearer by calling left-wing liberals social democrats.) Mr Starr rejects that entire picture. True liberals, for him, have always veered leftwards.

Historically, liberals sought not only to contain arbitrary power (as the right-wing story highlights) but to provide capable government (which the story plays down). In its first constitutional stage from the late 17th to the mid-19th century, liberalism was about how to make power answerable yet effective. In its later democratic phase, the task became how to nourish the egalitarian seed within liberalism—equal rights—without damaging freedom. Drawing widely on recent scholarship, Mr Starr argues that the historical picture of a golden age of weak-government liberalism is an illusion.

“Freedom's Power” is worth reading for this first part alone. However, Mr Starr's opponents could be wrong on their history but correct that freedom and equality are now in conflict. Arguing to the contrary—that the two ideals reinforce each other—is by no means impossible. But to do it convincingly is a tall order that would need a much broader conceptual and geographical framework than Mr Starr's.

In his later chapters the timescale shortens and the policy detail grows denser as Mr Starr limits himself in effect to the contemporary United States. Fair enough. He teaches sociology and politics at Princeton University, and he writes for American readers. But then he narrows things yet more by concentrating on how to win votes from Republicans. At the start, his book seems to promise a wide-ranging and non-partisan vindication of liberalism's progressive tradition. It ends, alas, sounding more like erudite and thoughtful notes towards a platform speech at a Democratic Party convention.

Freedom's Power: The True Force of Liberalism.
By Paul Starr.
Basic Books; 276 pages; $26 and £15.99

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From Rome to medieval Europe

A plague-cursed journey

Jun 14th 2007
From The Economist print edition

THIS ambitious and learned book is destined to be a librarian's nightmare. How on earth to categorise it? “Justinian's Flea” is, among other things, a work of political, military, medical and cultural history. It may even have a reasonable claim to being a work of zoological history too.

William Rosen's thesis is bold and, on the face of it, fairly straightforward. He sets out to identify the forces that turned the world of late Roman antiquity into medieval Europe. “The thousand-year-long transformation of a Mediterranean super-state into a northern European collection of nation-states may seem, in retrospect, inevitable,” he says. “It is anything but.” In his view, the decisive factor was the flea-and-rat-borne plague that swept across the region in the latter part of the sixth-century reign of the Roman emperor, Justinian, and may have killed up to 30m people.

Mr Rosen argues his position methodically and thoughtfully. He has a lot of ground to cover and he will not be rushed. So there are chapters not only on Justinian and the plague but also on the migration of the Goths, Visigoths, Ostrogoths and Huns; on Byzantine architecture; on Roman law; on China and the silkworm; and on the emergence of Islam.

Justinian's Flea: Plague, Empire, and the Birth of Europe
By William Rosen

Viking; 384 pages; $27.95.
Jonathan Cape; £20

Buy it at
Amazon.com
Amazon.co.uk

All of this he deals with very well. Scholars may quibble with certain particulars but ordinary readers will be swept along by the strong current of Mr Rosen's good-natured erudition. He is blessed, too, with some fascinating protagonists. His Justinian is a largely sympathetic figure; not a swashbuckling warrior-hero but a superb statesman of humble origins, and a canny delegator. Then there is his charismatic, brilliant General Belisarius.

Above all there is Justinian's wife, Theodora, the daughter of a bear-keeper, a sometime prostitute and, not long before the soon-to-be-emperor met her, a “racy comedienne”. She was—at least according to one contemporary historian, Procopius, whose “Secret History” was, in all likelihood, far from objective—a beautiful and passionate woman who expressed her regret that “nature had constructed her so that she could only have sex via three orifices”. Justinian, for his part, seems to have been entirely satisfied with her, and allowed her political influence to be felt throughout the empire.

Despite the title of the book, the matter of the plague is barely introduced until about halfway through. At this point, thumbing the remaining 200 or so pages to come, one begins to wonder whether the whole thing might be somewhat overlong and overdone. There is no sense of its having been padded—just a slightly crushing abundance of riches, of multiple lines of inquiry, to every one of which Mr Rosen gives his close attention.

“Justinian's Flea” reads like several books in one and the glut is, by the end, a little hard to digest—even, one suspects, for those few specialists who are able to claim intimate familiarity with Roman emperors, international jurisprudence, Far Eastern trade, evolutionary microbiology and animal ecology. Mr Rosen was himself an editor for many years; this is his first book by his own hand. He points out in his acknowledgments that everybody can benefit, sometimes, from a little editing. Admirable as his scholarly amplitude may be, he is, alas, no exception.

Justinian's Flea: Plague, Empire, and the Birth of Europe.
By William Rosen.
Viking; 384 pages; $27.95.
Jonathan Cape; £20

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Investment management

The asset-minded professors

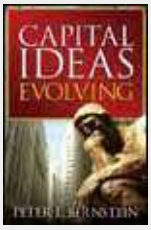
Jun 14th 2007
From The Economist print edition

FIFTY years ago, the business of managing other people's money was very much an art not a science, and was largely a matter of finding someone who was privy to inside information. But during the 1950s, 1960s and 1970s, academics changed the study of what became known as portfolio management. They did so in the face of much initial resistance and scepticism from the industry.

In his 1992 book, “Capital Ideas”, Peter Bernstein gave a magisterial account of the academics' thinking. The likes of Harry Markowitz, Bill Sharpe and Myron Scholes developed theories to explain the link between risk and reward, the gains to be made through diversification and the framework for valuing financial options.

In recent years, however, some of these concepts have come under attack. Critics have argued that the academics used too many simplifying assumptions, such as ignoring trading costs. A school of thought, known as behavioural finance, has proposed that investors are not as rational as the models assume and are subject to psychological biases, such as a reluctance to cut their losses.

Capital Ideas Evolving
By Peter L. Bernstein



John Wiley; 304 pages; $29.95 and £19.99

Buy it at
Amazon.com
Amazon.co.uk

Now Mr Bernstein has returned to the fray with a new volume in defence of his academic heroes. Although he accepts some of the theories' limitations, he argues that the professors built the structure for today's capital markets. Modern investors are much more sophisticated in the way they think about risk, in particular separating the returns available from market movements (beta in the jargon) and managerial skill (alpha).

The academic concept of efficient market theory—that prices already reflect all available information—has led to the creation of index-tracking funds that allow investors to own a diversified portfolio at very low cost. Although behavioural financiers have spotted market anomalies, they have not shown that these can be systematically exploited: the average fund manager still struggles to produce a return that matches the index.

Indeed, Mr Bernstein seeks to show how financial giants such as Barclays Global Investors and Goldman Sachs Asset Management have built on the insights developed by the academics. If there are ways systematically to beat the markets these days, they probably require men with physics doctorates and massive computer power rather than a smooth manner and the right contact book.

There is the equivalent of a technological arms race as modern fund managers vie to find the best computer models and to trade quickly before their competitors spot the same opportunities. This race is making the markets more efficient, and so making the academics' models look more realistic than before.

As Mr Bernstein recognises, this frantic activity is something of a paradox. The academics have taught us to be suspicious of the claims of the investment industry. But if the fund managers were not beavering away trying to pick stocks, prices would not be set efficiently and the academics would be proved wrong.

Lacking its predecessor's historical sweep, this book is not quite as impressive a feat of scholarship. But Mr Bernstein has yet again produced a book that is insightful and thought-provoking.

Capital Ideas Evolving.
By Peter L. Bernstein.
John Wiley; 304 pages; $29.95 and £19.99

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Cricket

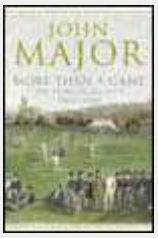
Major's game

Jun 14th 2007
From The Economist print edition

EX-PRIME MINISTERS generally turn to authorship because of the money. Their memoirs add to the pension pot. Their second volume usually involves statesmanship, or how the world would be a more peaceful place if they had been listened to more carefully. Sir John Major, who often appeared to be an odd man out when he was in office, has written his memoirs of course, but his second book is delightfully different: a history of cricket from its uncharted origins somewhere in southern England to the first world war.

For a former prime minister, his book is uncommonly modest. Sir John himself makes few appearances. He describes his attempt to explain cricket to George Bush senior: "[His] eyes swivelled when he realised that a match could last five days and yet still not produce a winner." And he briefly resurrects old enmities, pointing out "an early example of...the *Times*'s ability to be wrong on every major issue".

More Than a Game: The Story of Cricket's Early Years
By John Major



HarperCollins; 433 pages; £25

Buy it at
Amazon.com
Amazon.co.uk

Sir John knows his cricket history but also recognises his need for some expert assistance. He is generous about the research contribution of three accomplished cricket historians—whose input is sometimes undisguised. A reference to a deeply obscure figure named Christiana Willes is followed by the crushing parenthesis "not 'Christina', as is often thought".

The earliest references to cricket in the 16th and 17th centuries suggest that the game was largely an amusement for village peasants. In the 18th century it entered the bloodstream of the aristocracy who wrote the rules and organised it as a team sport. But the introduction of railways during Queen Victoria's reign meant that teams of professional cricketers could travel the length and breadth of the country to play lucrative engagements. Later in the 19th century, the amateur tradition reasserted itself, emphasising class distinctions between amateurs and professionals. In 1908 Lord Hawke, an old goat from Yorkshire, is quoted as saying that "amateurs are the moral backbone of a county team." The class distinction between professional and amateur did not end until 1962.

In the 20th century cricket has become a fixation in the old dominions and the Indian subcontinent, where the largest audience for the game is now to be found. Sir John calls his book "More Than a Game", and it is true that cricket has ignited many a fuse in relations between Britain and the Commonwealth. The ban on South Africa playing international cricket helped to erode apartheid. And the refusal of the Indian and Pakistani governments to allow their cricketers to play each other exploited the game for political purposes.

On such occasions cricket was indeed more than a game, but they lie outside Sir John's compass. What he delights in is cricket, especially at the Oval in south London where he comes from, as his constant companion: "the perfect blend of charm, fascination, inspiration and solace." What he loves best is really just a game.

More Than a Game: The Story of Cricket's Early Years.
By John Major.
HarperCollins; 433 pages; £25

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American royalty

Queen Brooke

Jun 14th 2007
From The Economist print edition

AMERICANS are told that their country has no queen. But in the dominion that is New York, Brooke Astor comes close. In 1953, at the age of 51, Brooke married Vincent Astor, heir to one of New York's biggest fortunes. When he died less than six years later, she moved on unshackled to become one of New York's most beloved philanthropists and socialites. Hats, gloves, emeralds: these were props for a role she seemed born to play.

This grand image was tarnished last summer, when New York's tabloids reported that Mrs Astor's son had been accused of neglecting her while siphoning money from her estate. At the age of 104, she was reportedly cooped up in an increasingly filthy flat suffering from Alzheimer's disease. Her grandson sued successfully to remove his father (who said he was shocked and hurt by the allegations) as her guardian. After the tawdry saga, this biography by Frances Kiernan, a former editor at the *New Yorker*, goes some way towards restoring Mrs Astor to her throne.

The Last Mrs Astor: A New York Story
By Frances Kiernan

Norton; 256 pages; $24.95

Buy it at
Amazon.com
Amazon.co.uk

Like the best American heroines, Mrs Astor had relatively modest beginnings. She grew up to be pretty enough, but she was by no means a beauty. Her main lures would always be her charm and wit, and she had two other husbands before she married Astor. He had pursued her ardently and was obviously rich. But he was also neurotic. “Of course she married Vincent for the money,” Louis Auchincloss, a friend and writer, would say. “I wouldn't respect her if she hadn't. Only a twisted person would have married him for love.”

Vincent's death allowed Brooke to come into her own. She took charge of his small foundation, focusing on New York. As the city teetered towards bankruptcy in the 1970s, she sprinkled grants like fairy dust, supporting parks, libraries and much more. She closed the foundation in 1997, having given away $200m. Through it all, her social life was active: when asked how many lovers she had had, Mrs Astor allegedly replied: “That's how I count myself to sleep.”

The Last Mrs Astor: A New York Story.
By Frances Kiernan.
Norton; 256 pages; $24.95

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New novel

Interior world

Jun 14th 2007
From The Economist print edition

“A FATHER attempting to murder a boy, a daughter trying to attack a father, is in retrospect something very small,” Michael Ondaatje writes about halfway through his new novel, “Divisadero”, “something that might occur within just a square inch or two of a Breughel.” Yet this is the scene that sets fire to the rest of a book that owes less to a disciplined literary structure than to its lyrical use of language and acute observation.

“Divisadero” traces the smoke trails laid by two motherless sisters, a widowed father and the young farm hand who grew up with them after the night that ignites a future in which the four characters never meet again, yet never stop thinking of each other. Coop, the farm hand, becomes a professional gambler who pulls off a massive heist and spends the rest of his life looking over his shoulder both in fear and in longing. Anna, the sister he loves and then seduces, moves to France to study the works of an arcane poet and novelist named Lucien Segura.

Divisadero
By Michael Ondaatje

Knopf; 288 pages; $25.
To be published in Britain by Bloomsbury in September

Buy it at
Amazon.com
Amazon.co.uk

Although this new novel is Mr Ondaatje's first since the Sri Lankan-born Canadian brought out “Anil's Ghost” in 2000, in timbre and language it owes more to his earlier, and most famous, work, “The English Patient”. This is especially true in the book's second half, when Mr Ondaatje gives added depth to the events of the present by turning to the past and tracing, in scenes of great simplicity, how Segura makes friends with a family of gypsies who change his life for ever.

Set partly on America's west coast, where Divisadero is a street in San Francisco, and partly in France in the early years of the first world war, Mr Ondaatje's book moves between the gambling dens of the California-Nevada border and the diphtheria wards of the French countryside. Few novelists are able to pull off such changes without short-changing either one scene or the other, but Mr Ondaatje succeeds, seemingly without effort.

That is in part because the scenery he explores most patiently is within rather than without. Readers who long for an interior world coloured only with words are in for a treat.

Divisadero.
By Michael Ondaatje.
Knopf; 288 pages; $25.
To be published in Britain by Bloomsbury in September

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Ian McKellen's Lear

Old man redeemed

Jun 14th 2007
From The Economist print edition

Ian McKellen takes a quieter, eventually wiser King Lear on tour

IN THE mid-1990s, when Sir Ian McKellen, a British classical actor, was working on his film career, he said he would never take on the iconic role of King Lear. He said portraying Lear, who goes from divine monarch to shivering naked animal in three acts, was too difficult and too exhausting. Instead, he spent ten years tiptoeing around the role in Hollywood. He played a deranged despot, Magneto, in the "X-Men" trilogy, and donned the long beard and staff as Gandalf in "Lord of the Rings": Lear's fairy-tale doppelganger, wise, benevolent, always in control.

EPO

The king (left) and blinded Gloucester: poor, infirm, weak and despised

Now 68, and having secured the global stardom he desired, Sir Ian is finally playing Lear with the Royal Shakespeare Company in Stratford and is soon to take the play on a world tour. He had changed his mind, he said, because of the urgency of his own ageing ("I'm two years from collapsing into old age") and because King Lear was an appropriate swan song, as "I probably won't be playing a great part in Shakespeare again."

Sir Ian has been involved in the production since its inception two years ago, setting the tour's itinerary and bringing in the director, Sir Trevor Nunn, with whom he first worked in Stratford in 1960 when the two were students at Cambridge. Given the weight of expectation, audiences will be surprised by the actor's performance. He does not howl under angry skies; he whispers. His performance is so soft and understated that it sometimes feels more like Prospero than Lear. "The image of the old man out in the storm shouting insanely at the weather...encourages [me] to rather display the part; to be epic. But I am fighting that. Each performance I am coming down in decibels," he says.

The actor's understatement fits the director's vision of the play. Sir Trevor's briskly paced production, set in a Ruritania redolent of tsarist Russia, emphasises the need for humility in an empty and often unstable universe. Lear's madness stems from the disintegration of his divinely controlled, harmoniously ordered kingdom, in which he hubristically conceived himself to be supreme. In the opening, when Lear calls on Apollo, his subjects prostrate themselves before him. The production ends in supplication, with Lear leading those same characters on their knees, arms raised pleadingly to the silent skies.

Taking "King Lear" on a world tour is timely as the developed world watches its population age. But this Lear is no Alzheimer's patient. "He has a breakdown; he does not go permanently mad," Sir Ian insists. As he and his director see it, Lear recovers his wits in the final act, coming to a deeper understanding of

existence.

The production is laden with auricular effects which form a noisy background to the ocular clarity that Lear reaches before his death. Sir Ian utters Lear's final words as if seeing for the first time: “Look there. Look there.” This is the biggest surprise of the production: making Lear's fate redemptive not despairing.

“King Lear” is in Britain until July 7th. It goes to: Singapore, July 19th-22nd; Australia, July 28th-August 5th; New Zealand, August 11th-26th; and the United States, September 6th-October 28th. The full interview with Ian McKellen can be found here

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Jim Clark

Jun 14th 2007
From The Economist print edition

AP

Jim Clark, sheriff and segregationist, died on June 4th, aged 84

GETTING ready for a day's work in the mid-1960s, Jim Clark dressed like a soldier. Sheriff's shirt, extra large, to take a man of 16 stone and more than six feet tall. Sheriff's trousers similar. Tie round his neck. Silver helmet, sometimes worn at a rakish angle when the heat and humidity made it slip off his head. Black leather belt with a holster for his sidearm, a .38 calibre pistol. Truncheon, rope and cattle-prod. Silver sheriff's star and, as the final touch, a small white button pinned on a lapel or beside his tie, reading “Never”. Never to letting the niggers overcome him.

He did not always take the cattle prod. But, as a cattle-raising man in the pleasantly rolling country round Selma, Alabama, he knew the use of the things to ginger up creatures of a slow disposition: people “of low mental IQ”, who nonetheless claimed they should have the right to vote, and who hung around the steps of the Selma courthouse until they were summoned inside to read “constitutionality” or “institutionalisation” without stumbling, or to say how many bubbles there were in a bar of soap, until they were laughingly pushed out again. Blacks understood the prodder. Mr Clark and his men once made 165 teenage nuisances run out of town and go on running, mile after mile, prod after prod, until they threw up with exhaustion. And if blacks still got uppity he could wrestle them to the ground like a steer before branding, one knee lodged tight in their stomach.

Beating negroes was something he was famous for. Not that he always admitted it. From 1963, when the Justice Department began to watch him, the press came into Selma too, blazing their bright lights into his eyes; and the camera would make him out a liar, he said, by showing him with his truncheon raised over blacks when he had never touched them. Negroes tended to fall down, lazily. If one went down they all followed, “in one big swoop”. Often he had really wanted to get rough, he said, but he knew better. “One of the first things I ever learned was not to hit a negro with your fist because his head is too hard.”

The task of upholding the law of the land in Dallas County, as Mr Clark believed to his death he was doing, was not left to the sheriff alone. A posse of 300 could go with him. He had formed this force when he became sheriff, appointed by the old friend, Governor Jim Folsom, with whom he had grown up in the tiny town of Elba, on the Pea River in Coffee County. People in Selma had been cool at first to the unelected sheriff, but his force was useful. The posse could be mobilised not simply for clearing up after hurricanes and floods, but for keeping blacks in their place and rebuffing the “dupes” and “communists” who sympathised with them.

Mr Clark's helpers were all local volunteers, mostly members like him of the White Citizens Council, and like him possessed of belts hung with ropes, prods and guns. They wore army fatigues; many rode

horses. When the posse was on the case Mr Clark could present a face of innocence, loitering on the edge of beatings or shootings in a sports jacket and a felt hat. But he still sometimes carried his truncheon, big as a baseball bat. And he was seldom without his “Never” badge.

To the Edmund Pettus bridge

Horrified northerners, easterners and westerners thought Mr Clark was the face of the South. He was not. Half-black Selma, though picked out by Martin Luther King as the most segregated town in the country, and with only 1% of its blacks registered to vote, was struggling towards desegregation. Many white businessmen and shopkeepers wanted the “Coloured Only” signs to come down from lunch-counters and drinking fountains. The mayor was in talks with black leaders, wanted “fairness” for everyone in town and was doing what he could to check the police. But he could not control Mr Clark.

And this was exactly what civil-rights campaigners needed. The muddled situation elsewhere in Selma was not good publicity; but on the courthouse steps, where the blacks continually formed their patient lines to try to register to vote, Mr Clark ruled, and could be relied on to behave both stupidly and brutally. It needed only civil-rights leaders to goad him, with the hated cameras running. In February 1965 the Rev C.T. Vivian called him “an evil man” and in the same breath mentioned Hitler, whom Mr Clark had fought as an army gunner, though from the safe distance of the Aleutian Islands. Mr Clark forgot about negroes' heads, and broke his left hand decking him. A few weeks later, on March 7th, a huge march was planned to Montgomery; Mr Clark turned it back at the Edmund Pettus bridge with everything he and the posse could throw at it, including bull-whips and tear gas. The result was 57 people injured, national revulsion and, five months later, the Voting Rights Act.

Blacks in Selma, 9,000 of them and freshly registered, celebrated by voting out Mr Clark. He had been a good sheriff at first, friends said. Twice re-elected, and a fine family man, with five children. A fan of the Alabama University football team, the Crimson Tide. Charming to ladies in white gloves and hats. But never so useful as when he donned that helmet, flexed that bullwhip and prepared to draw blood; never so useful as when he pinned “Never” to his swaggering chest.

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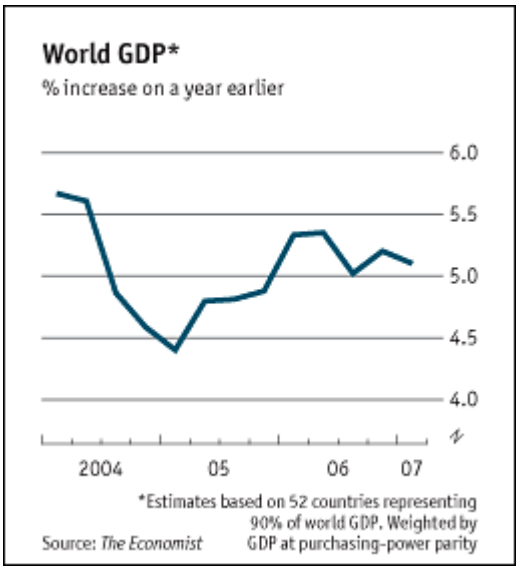
Overview

Jun 14th 2007
From The Economist print edition

Bond markets dominated the week's economic news. The yield on **America's** ten-year government bonds soared to well above 5%. Those on the equivalent European bonds also rose sharply. In the currency markets the **yen** reached a four-and-a-half-year low against the dollar as the carry trade carried on.

China's industrial-output growth rose to 18.1% in the year to May. Consumer-price inflation went up to 3.4%, from 3.0% in April.

The run of good news about the **euro area** was interrupted by a surprise fall in industrial production in April, of 0.8%. Germany's output fell by 2.3% that month, the biggest drop for nearly seven years. French and Italian output both fell by 0.8%. In May consumer-price inflation fell a little in France and Spain, but edged up in Greece.



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Output, prices and jobs

Jun 14th 2007
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2007†	2008†	latest	latest	year ago	2007†	rate‡, %
United States	+1.9 Q1	+0.6	+2.0	+2.7	+1.9 Apr	+2.6 Apr	+3.5	+2.5	4.5 May
Japan	+2.6 Q1	+3.3	+2.3	+2.3	+2.3 Apr	nil Apr	–0.1	nil	3.8 Apr
China	+11.1 Q1	na	+10.3	+9.7	+18.1 May	+3.4 May	+1.4	+2.8	9.8 2006
Britain	+2.9 Q1	+2.9	+2.7	+2.5	+0.4 Apr	+2.5 May**	+2.2	+2.4	5.5 Apr††
Canada	+2.0 Q1	+3.7	+2.4	+2.7	–0.9 Mar	+2.2 Apr	+2.4	+2.0	6.1 May
Euro area	+3.0 Q1	+2.4	+2.6	+2.2	+2.8 Apr	+1.9 May	+2.5	+1.9	7.1 Apr
Austria	+3.5 Q1	+3.6	+2.9	+2.6	+6.8 Mar	+2.1 May	+1.7	+1.6	4.4 May
Belgium	+2.9 Q1	+2.9	+2.5	+2.3	+2.0 Mar	+1.3 May	+2.2	+1.8	11.0 Apr‡‡
France	+2.1 Q1	+2.4	+2.1	+2.2	+1.7 Apr	+1.1 May	+2.1	+1.4	8.2 Apr
Germany	+3.6 Q1	+2.1	+2.7	+2.3	+3.7 Apr	+1.9 May	+1.9	+1.9	9.2 May
Greece	+4.6 Q1	na	+3.3§	+3.2§	+0.2 Apr	+2.6 May	+3.1	+2.6§	9.0 Feb
Italy	+2.3 Q1	+1.1	+2.0	+1.7	+0.8 Apr	+1.6 May	+2.2	+1.9	6.5 Q4
Netherlands	+2.5 Q1	+2.3	+2.6	+2.5	+5.8 Apr	+1.8 May	+1.7	+1.7	4.7 Apr††
Spain	+4.1 Q1	+4.6	+3.6	+2.8	+6.5 Apr	+2.3 May	+4.1	+2.6	8.2 Apr
Czech Republic	+6.1 Q1	+6.1	+5.3	+4.9	+12.7 Mar	+2.4 May	+3.1	+2.6	6.4 May
Denmark	+1.8 Q1	+1.9	+2.2	+2.2	+1.6 Apr	+1.8 May	+2.0	+1.8	3.7 Apr
Hungary	+2.7 Q1	+2.4	+2.6	+3.1	+10.6 Apr	+8.8 Apr	+2.3	+6.8	7.5 Apr††
Norway	+2.8 Q1	+2.9	+2.7§	+2.4§	+6.1 Apr	+0.3 May	+2.3	+1.6§	2.7 Mar††
Poland	+7.4 Q1	na	+6.0	+5.3	+12.4 Apr	+2.3 Apr	+0.7	+2.2	13.0 May‡‡
Russia	+7.9 Q1	na	+6.7	+6.4	+4.6 Apr	+7.6 May	+9.5	+8.2	7.0 Apr‡‡
Sweden	+3.0 Q1	+2.6	+3.7	+3.1	+3.6 Apr	+1.7 May	+1.6	+1.7	4.6 Apr‡‡
Switzerland	+2.4 Q1	+3.2	+2.2	+2.1	+8.9 Q4	+0.5 May	+1.4	+0.6	2.7 May‡‡
Turkey	+5.2 Q4	na	+4.6	+5.7	+1.4 Apr	+9.2 May	+9.9	+8.3	11.4 Q1‡‡
Australia	+3.8 Q1	+6.6	+3.0	+3.2	+3.7 Q4	+2.4 Q1	+3.0	+2.5	4.2 May
Hong Kong	+5.6 Q1	+2.0	+5.3	+4.9	–1.4 Q4	+1.3 Apr	+1.9	+2.4	4.3 Apr††
India	+9.1 Q1	na	+8.1	+7.6	+12.9 Mar	+6.7 Apr	+5.0	+5.7	7.6 2006
Indonesia	+6.0 Q1	na	+6.0	+5.8	+11.9 Mar	+6.0 May	+15.6	+6.5	10.3 2005
Malaysia	+5.3 Q1	na	+5.4	+5.6	+0.4 Apr	+1.5 Apr	+4.6	+2.3	3.0 Q4
Pakistan	+6.6 2006§§	na	+6.9§	+6.0§	+6.8 Sep	+7.4 May	+7.1	+6.7§	na
Singapore	+6.1 Q1	+7.6	+5.5	+5.7	+18.8 Apr	+0.6 Apr	+1.1	+1.6	2.9 Q1
South Korea	+4.0 Q1	+3.6	+4.3	+4.6	+6.7 Apr	+2.3 May	+2.3	+2.2	3.4 May
Taiwan	+4.2 Q1	na	+4.2	+4.6	+2.6 Apr	nil May	+1.6	+1.3	4.0 Apr
Thailand	+4.3 Q1	+4.9	+4.0	+4.7	+6.7 Apr	+1.9 May	+6.2	+2.5	1.5 Feb
Argentina	+8.6 Q4	+7.4	+7.5	+5.7	+6.8 Apr	+8.8 May	+11.5	+9.8	9.7 Q1‡‡
Brazil	+4.3 Q1	+3.2	+3.9	+3.7	+6.0 Apr	+3.2 May	+4.2	+3.6	10.1 Apr‡‡
Chile	+5.8 Q1	na	+5.2	+5.1	+5.2 Apr	+2.9 May	+3.7	+2.6	6.8 Apr††‡‡
Colombia	+8.0 Q4	nil	+5.4	+4.6	+15.1 Mar	+6.2 May	+4.0	+5.1	12.0 Mar‡‡
Mexico	+2.6 Q1	+0.6	+3.2	+3.8	+1.5 Apr	+3.9 May	+3.0	+3.8	3.6 Apr‡‡
Venezuela	+8.8 Q1	nil	+6.6	+3.9	+6.7 Jan	+19.5 May	+10.4	+17.6	10.3 Q1‡‡
Egypt	+7.4 Q1	na	+6.3	+5.6	+10.5 2006	+10.5 May	+5.3	+9.9	9.0 Q4‡‡
Israel	+5.4 Q1	+6.3	+4.7	+4.3	+5.2 Mar	–1.3 Apr	+3.8	+0.9	7.7 Q1
Saudi Arabia	+3.4 2006§	na	+4.0§	+5.0§	na	+2.9 Mar	+2.5	+2.5§	na
South Africa	+5.4 Q1	+4.7	+4.8	+4.9	+3.8 Apr	+7.0 Apr	+3.3	+5.4	25.5 Sep‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+9.9 Q1	+9.5	+9.4§	+7.4§	+8.0 Apr	+5.7 May	+4.7	+5.1§	4.9 Mar
Finland	+5.4 Q1	+3.4	+2.7§	+2.5§	–1.4 Apr	+2.4 May	+1.7	+1.4§	6.6 Apr
Iceland	–0.1 Q1	–3.6	+1.3§	+2.7§	na	+4.0 Jun	+8.0	+5.0§	1.1 Apr‡‡
Ireland	+5.0 Q4	+0.1	+5.0§	+3.4§	+5.8 Apr	+5.0 May	+3.9	+4.2§	4.3 Apr
Latvia	+10.7 Q1	na	+9.2§	+7.5§	–0.9 Apr	+8.2 May	+6.6	+7.6§	5.6 Mar
Lithuania	+8.3 Q1	+6.1	+7.0§	+6.4§	na	+4.8 May	+3.5	+1.9§	5.5 Mar
Luxembourg	+5.0 Q4	+7.0	+4.7§	+5.0§	+2.8 Feb	+2.1 Apr	+2.9	+2.2§	4.4 Apr‡‡
New Zealand	+2.9 Q4	+5.0	+3.1§	+3.1§	–0.4 Q4	+2.5 Q1	+3.3	+2.2§	3.8 Q1
Peru	+5.6 Mar	na	+6.7	+5.6	+7.7 Mar	+0.9 May	+2.2	+1.1	9.3 Apr‡‡
Philippines	+6.9 Q3	+10.3	+5.7	+5.8	–7.6 Mar	+2.4 May	+6.9	+3.9	7.6 Q1‡‡
Portugal	+2.1 Q1	+3.2	+1.6§	+2.1§	+3.8 Apr	+2.7 Apr	+3.7	+2.2	8.4 Q1‡‡
Slovakia	+8.9 Q1	na	+8.0§	+6.0§	+14.9 Apr	+2.3 May	+4.8	+2.5	10.8 Mar
Slovenia	+7.2 Q1	na	+4.6§	+4.1§	+13.1 Apr	+2.9 May	+3.2	+2.7	8.1 Mar‡‡

*% change on previous quarter, annual rate. †*The Economist* poll. ‡National definitions. §Economist Intelligence Unit estimate/forecast. **RPI inflation rate 4.3% in May. ††Latest three months. ‡‡Not seasonally adjusted. §§Year ending June.

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The Economist commodity-price index

Jun 14th 2007
From The Economist print edition

The Economist commodity-price index

2000=100

	Jun 5th	Jun 12th*	% change on one month	% change on one year
Dollar index				
All items	206.6	201.6	–1.3	+20.3
Food	168.0	169.4	+4.7	+25.9
Industrials				
All	256.5	243.2	–6.2	+15.7
Nfa†	166.0	162.7	+2.2	–2.0
Metals	306.0	287.1	–8.5	+22.6
Sterling index				
All items	157.2	154.9	–0.8	+12.0
Euro index				
All items	141.3	140.0	+0.8	+13.5
Gold				
$ per oz	671.80	648.45	–3.6	+12.5
West Texas Intermediate				
$ per barrel	65.60	65.29	+3.6	–7.0

*Provisional †Non-food agriculturals.

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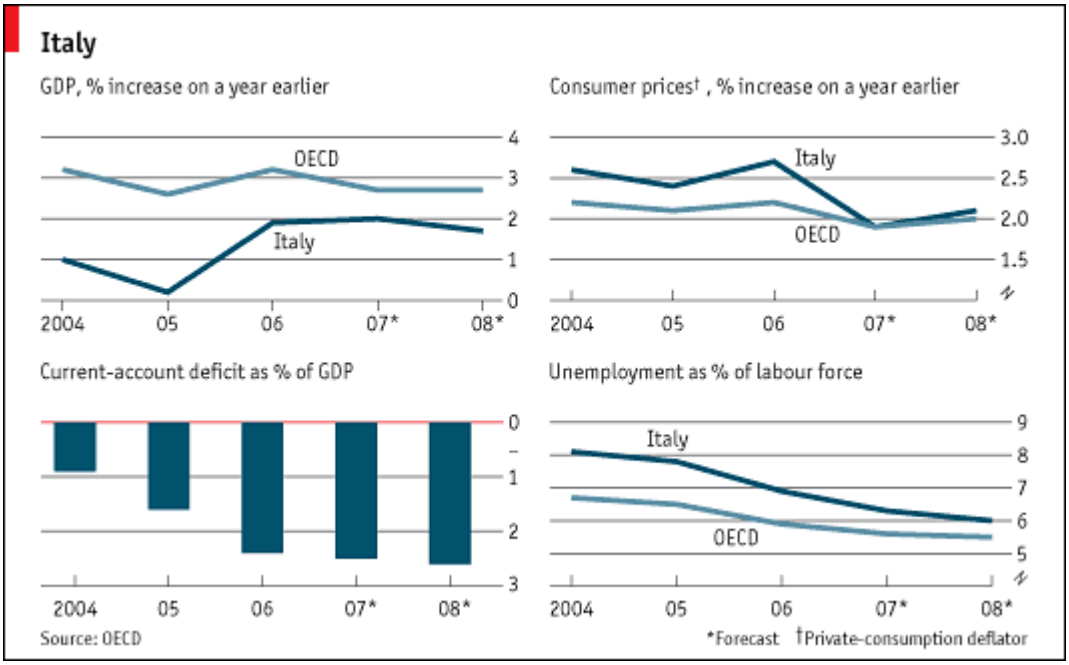
Italy

Jun 14th 2007
From The Economist print edition



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Trade, exchange rates, budget balances and interest rates

Jun 14th 2007
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2007†	Currency units, per $ Jun 13th	Currency units, per $ year ago	Budget balance % of GDP 2007‡	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−829.9 Apr	−856.7 Q4	−6.2	–	–	−1.7	5.25	5.19
Japan	+92.0 Apr	+186.9 Apr	+4.3	122	115	−4.4	0.60	1.94
China	+216.7 May	+249.9 2006	+8.1	7.64	8.00	−1.3	3.05	3.89
Britain	−158.3 Apr	−80.1 Q4	−3.1	0.51	0.54	−2.8	5.82	5.45
Canada	+46.0 Apr	+18.5 Q1	+1.2	1.07	1.11	0.9	4.36	4.67
Euro area	+3.2 Mar	+9.9 Mar	+0.1	0.75	0.79	−0.8	4.15	4.63
Austria	+0.3 Mar	+10.3 Q4	+2.4	0.75	0.79	−0.8	4.15	4.69
Belgium	+19.9 Mar	+7.8 Dec	+2.0	0.75	0.79	nil	4.20	4.70
France	−34.8 Apr	−31.9 Mar	−1.3	0.75	0.79	−2.9	4.15	4.67
Germany	+227.3 Apr	+167.7 Apr	+4.8	0.75	0.79	0.3	4.15	4.63
Greece	−45.7 Mar	−31.7 Mar	−8.4‡	0.75	0.79	−2.2	4.15	4.81
Italy	−23.1 Mar	−45.6 Mar	−2.1	0.75	0.79	−2.6	4.15	4.83
Netherlands	+43.7 Apr	+16.8 Q1	+8.2	0.75	0.79	0.6	4.15	4.67
Spain	−116.6 Mar	−112.1 Feb	−8.8	0.75	0.79	1.4	4.15	4.68
Czech Republic	+2.6 Apr	−5.5 Mar	−3.8	21.5	22.5	−4.1	2.92	4.56
Denmark	+5.2 Apr	+4.8 Apr	+2.5	5.60	5.91	3.6	4.39	4.72
Hungary	−2.1 Apr	−6.5 Q4	−4.7	190	214	−6.7	7.81	6.53
Norway	+54.3 Apr	+57.3 Q1	+14.9‡	6.08	6.23	18.8	4.75	5.27
Poland	−6.2 Mar	−8.7 Mar	−2.6	2.87	3.20	−2.4	4.47	5.51
Russia	+129.8 Apr	+85.8 Q1	+5.7	26.0	27.0	2.4	10.50	6.22
Sweden	+19.7 Apr	+29.8 Q1	+6.6	7.07	7.35	2.2	3.32	4.45
Switzerland	+10.3 Apr	+106.1 Q4	+15.7	1.24	1.23	0.3	2.49	3.22
Turkey	−53.0 Apr	−31.3 Apr	−7.0	1.34	1.60	−2.7	19.08	6.65§
Australia	−10.8 Apr	−43.8 Q1	−5.3	1.19	1.35	1.3	6.48	6.28
Hong Kong	−19.0 Apr	+20.6 Q4	+9.8	7.81	7.76	2.6	4.41	4.68
India	−61.3 Apr	−10.0 Q4	−1.8	41.0	45.9	−3.4	7.71	8.53
Indonesia	+41.5 Apr	+9.6 Q4	+2.2	9,083	9,480	−1.6	8.52	6.61§
Malaysia	+28.3 Apr	+25.6 Q4	+13.5	3.47	3.67	−3.7	3.62	5.72§
Pakistan	−13.6 May	−6.8 Q1	−5.6‡	60.6	60.1	−4.6	9.64	7.14§
Singapore	+35.0 Apr	+38.1 Q1	+23.3	1.54	1.59	0.3	2.56	2.92
South Korea	+16.6 May	+5.2 Apr	+0.2	931	962	0.5	5.04	5.41
Taiwan	+13.7 May	+28.1 Q1	+6.7	33.0	32.6	−2.3	3.20	2.61
Thailand	+7.0 Apr	+8.8 Apr	+2.1	34.6	38.4	−1.5	3.75	4.00
Argentina	+11.4 Apr	+8.1 Q4	+2.5	3.07	3.08	1.0	9.44	na
Brazil	+47.6 May	+13.6 Mar	+0.8	1.94	2.29	−2.2	11.93	6.16§
Chile	+25.5 May	+5.3 Q4	+1.3	529	544	5.2	5.28	5.78§
Colombia	−1.0 Mar	−2.9 Q4	−2.7	1,938	2,562	−0.9	7.60	6.17§
Mexico	−10.2 Apr	−5.5 Q1	−1.4	11.0	11.4	−0.2	7.20	7.76
Venezuela	+28.2 Q1	+23.8 Q1	+9.8	2,147	2,690	−4.7	10.13	6.55§
Egypt	−12.6 Q4	+2.7 Q4	+1.5	5.70	5.76	−5.5	6.74	5.75§
Israel	−7.5 May	+6.8 Q4	+3.6	4.18	4.48	−1.0	3.77	4.95
Saudi Arabia	+148.5 2006	+95.4 2006	+20.1‡	3.75	3.75	13.2	5.05	na
South Africa	−9.9 Apr	−16.3 Q4	−6.0	7.24	6.85	0.5	9.60	8.17
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−3.8 Mar	−2.6 Mar	−14.5‡	11.8	12.4	1.3	4.68	na
Finland	+12.3 Mar	+13.7 Mar	+5.7‡	0.75	0.79	3.4	4.10	4.68
Iceland	−1.9 Apr	−4.0 Q1	−18.7‡	63.4	75.7	1.8	13.76	na
Ireland	+34.0 Mar	−7.2 Q4	−4.1‡	0.75	0.79	0.5	4.15	4.66
Latvia	−5.8 Apr	−5.4 Apr	−20.0‡	0.52	0.55	nil	7.34	na
Lithuania	−6.0 Apr	−3.5 Mar	−10.3‡	2.60	2.74	−0.5	4.93	na
Luxembourg	−5.3 Mar	+4.4 Q4	na	0.75	0.79	0.3	4.15	na
New Zealand	−4.0 Apr	+6.2 Q4	−10.3‡	1.33	1.60	3.1	7.00	6.85
Peru	+9.0 Apr	+2.7 Q1	+1.8	3.17	3.27	0.1	4.50	na
Philippines	−3.9 Mar	+5.0 Dec	+3.6	46.7	53.2	−1.0	6.38	na
Portugal	−22.9 Mar	−17.8 Feb	−7.5‡	0.75	0.79	−3.3	4.15	4.80
Slovakia	−2.2 Apr	−3.7 Feb	−4.3‡	25.8	30.2	−3.0	4.13	4.62
Slovenia	−2.2 Apr	−1.3 Mar	−2.0‡	0.75	0.79	−1.2	na	na

*Merchandise trade only. †*The Economist* poll. ‡Economist Intelligence Unit forecast. §Dollar-denominated bonds.

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Markets

Jun 14th 2007
From The Economist print edition

Markets

	Index Jun 13th	% change on one week	% change on Dec 29th 2006 in local currency	% change on Dec 29th 2006 in $ terms
United States (DJIA)	13,482.4	+0.1	+8.2	+8.2
United States (S&P 500)	1,515.7	–0.1	+6.9	+6.9
United States (NAScomp)	2,582.3	–0.2	+6.9	+6.9
Japan (Nikkei 225)	17,732.8	–1.7	+2.9	+0.3
Japan (Topix)	1,745.9	–1.8	+3.9	+1.2
China (SSEA)	4,379.8	+10.6	+55.6	+59.0
China (SSEB, $ terms)	309.3	+9.0	+132.6	+137.7
Britain (FTSE 100)	6,559.6	+0.6	+5.4	+6.3
Canada (S&P TSX)	13,859.5	–0.6	+7.4	+17.1
Euro area (FTSE Euro 100)	1,383.0	–0.6	+8.2	+9.1
Euro area (DJ STOXX 50)	4,401.7	–0.8	+6.8	+7.8
Austria (ATX)	4,789.4	+0.2	+7.3	+8.3
Belgium (Bel 20)	4,571.7	–0.4	+4.2	+5.1
France (CAC 40)	5,934.3	–0.7	+7.1	+8.0
Germany (DAX)*	7,680.8	–0.6	+16.4	+17.5
Greece (Athex Comp)	4,816.2	–1.2	+9.6	+10.6
Italy (S&P/MIB)	41,930.0	–0.9	+1.2	+2.1
Netherlands (AEX)	536.4	–0.2	+8.3	+9.3
Spain (Madrid SE)	1,634.6	–0.8	+5.1	+6.1
Czech Republic (PX)	1,842.6	+0.2	+16.0	+12.8
Denmark (OMXCB)	461.4	–2.4	+8.8	+9.9
Hungary (BUX)	26,496.8	–0.1	+6.7	+7.0
Norway (OSEAX)	552.7	–0.9	+10.0	+12.6
Poland (WIG)	63,821.8	+0.5	+26.6	+28.0
Russia (RTS, $ terms)	1,806.7	–0.9	–7.0	–6.0
Sweden (Aff.Gen)	398.3	–3.1	+9.0	+5.6
Switzerland (SMI)	9,146.1	–1.4	+4.1	+2.2
Turkey (ISE)	44,629.5	–2.7	+14.1	+20.7
Australia (All Ord.)	6,210.1	–2.5	+10.0	+17.1
Hong Kong (Hang Seng)	20,578.8	–1.2	+3.1	+2.6
India (BSE)	14,003.0	–1.8	+1.6	+9.7
Indonesia (JSX)	2,088.6	–0.7	+15.7	+14.5
Malaysia (KLSE)	1,353.0	–1.4	+23.4	+25.3
Pakistan (KSE)	13,477.2	+2.0	+34.2	+34.8
Singapore (STI)	3,551.2	–0.4	+18.9	+18.3
South Korea (KOSPI)	1,722.0	–1.2	+20.0	+19.9
Taiwan (TWI)	8,346.4	+0.4	+6.7	+5.2
Thailand (SET)	726.6	–4.3	+6.9	+11.6
Argentina (MERV)	2,168.4	–1.7	+3.7	+3.5
Brazil (BVSP)	52,993.0	+1.8	+19.2	+31.0
Chile (IGPA)	14,510.2	+1.0	+17.3	+17.9
Colombia (IGBC)	10,448.6	+2.7	–6.4	+8.2
Mexico (IPC)	31,884.1	+0.6	+20.6	+19.1
Venezuela (IBC)	38,269.0	–0.9	–26.7	+14.1
Egypt (Hermes)	68,174.1	–2.2	+11.2	+11.5
Israel (TA-100)	1,087.5	–2.7	+18.0	+18.9
Saudi Arabia (Tadawul)	7,074.5	–3.9	–10.8	–10.8
South Africa (JSE AS)	28,603.0	+0.2	+14.8	+11.9
Europe (FTSEurofirst 300)	1,580.5	–0.4	+6.5	+7.5
World, dev'd (MSCI)	1,589.5	–1.1	+7.1	+7.1
Emerging markets (MSCI)	1,015.3	–0.9	+11.2	+11.2
World, all (MSCI)	395.3	–1.1	+7.5	+7.5
World bonds (Citigroup)	648.2	–1.9	–1.5	–1.5
EMBI+ (JPMorgan)	407.5	–2.0	nil	nil
Hedge funds (HFRX)	1,349.7	–0.5	+5.8	+5.8
Volatility, US (VIX)	14.7	14.9	11.6	(levels)
CDSs, Eur (iTRAXX)†	17.3	+5.6	–19.3	–18.6
CDSs, N Am (CDX)†	31.4	+4.4	+7.0	+7.0
Carbon trading (EU ETS) €	0.17	–26.1	–97.3	–97.3

*Total return index. †Credit-default swap spreads, basis points.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac.

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Pension assets and old-age dependency

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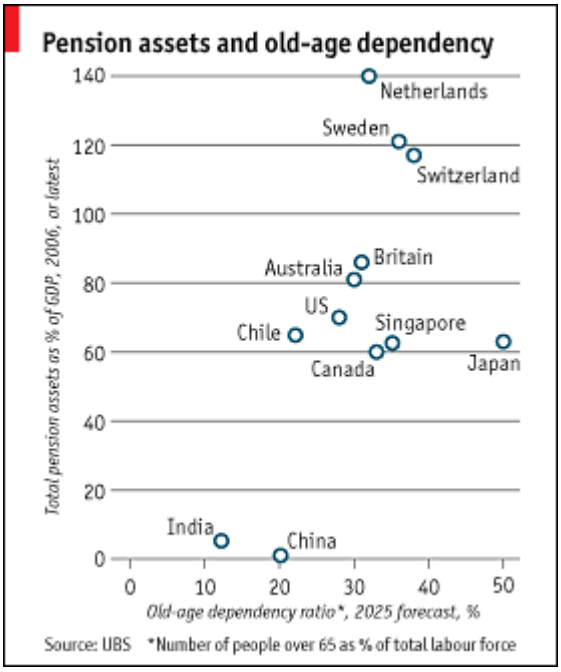

Analysts at UBS point out that there is no “right” level of pension assets per person or as a proportion of GDP. However, countries with the highest projected ratios of old people to workers ought to have the best funding. This is not always so. In the Netherlands, where the ratio of over-65s to workers will be 34% by 2025, pension assets are worth 140% of GDP, or $58,000 per person. Japan looks much less well prepared: its dependency ratio is expected to be 50% by 2025, but it has pension assets of just 63% of GDP, or $22,000 per person. India and China have unsurprisingly low pension assets but seem set for strong economic growth; and India, in particular, has a low projected dependency ratio.

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